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ABSTRACT

In this issue various concepts of economic change are examined. Part I looks at economic change as a context for focusing on workforce issues. Parts II and III discuss what is being done to address this contemporary problem. This issue contains the following papers: "Presidential Perspectives on Economic Change and Restructuring: An Interpretation"; "Understanding and Adjusting to Economic Change"; "Challenge in Restructuring: Efficiency vs. Equity"; "Understanding the Context of Dislocation"; "Worker Dislocation: A Review Article" (Ernst W. Stromsdorfer); "Evaluating Dislocated Worker Programs: U.S. Department of Labor Studies in the 1990s"; "Other National-Level Studies in the 1980s and Early 1990s Relevant to Dislocation"; "Self-Employment as an Employment Strategy for Dislocated Workers"; "Defense Downsizing: Some Implications"; "Studying Defense Conversion in Affected Communities"; "Programs To Ease the Adjustment to Defense Cutbacks"; "Findings from the Defense Conversion Adjustment Demonstration Project" (Mary G. Visher, Deborah Kogan); "A Commentary by Secretary of Labor, Robert B. Reich"; "An Interview with Salvatore Zecchini"; "An Interview with Gary K. Jackson and John E. Dryer"; "Economic Reform in the European Union"; "The OECD's (Organization for Economic Cooperation and Development) Employment Study"; "The Persistence of Unemployment in the Postindustrial Era"; "Labor Issues in European Consolidation"; "The Political Economy of Borrowing'"; "A Selective Overview of Soviet Reform Policies"; "Gorbachev's Perestroika"; "The USSR in the Transition Period"; "Some Thinking about E&T (Employment and Training) Coordination at the National Level"; "Measuring Performance in Programs and Coordinated Systems"; "More about Performance Management"; "Using Performance Standards in Establishing Workforce System Accountability"; "Performance Management Systems: Evaluation Principles and Standards"; "A Brief, Selected History of Coordination Efforts"; "Establishing Comprehensive Workforce Development Systems: State-Level Efforts in the 1990s"; "Contemporary Coordination Efforts: The Core Data Elements Project"; "Comprehensive State Workforce Development Systems"; "The National Governors Association's Performance Management Project"; "References on Economic Change, Restructuring and Working Dislocation" (contains 314 references); and "Federal Research: An Update." (MN)

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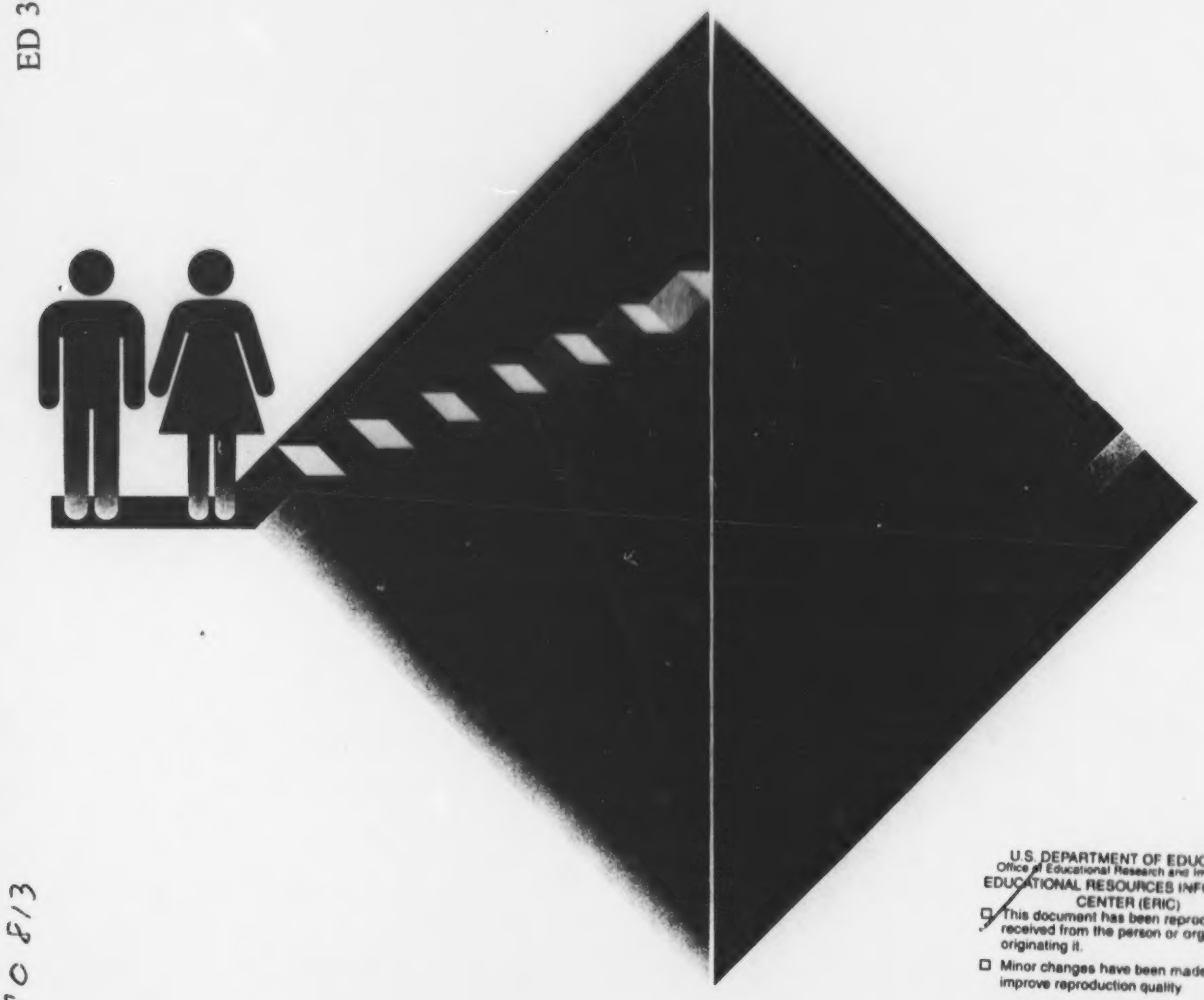

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U.S. Department of Labor
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A review journal for employment and training professionals focusing on policy analysis and evaluation research in occupational training, education, work and welfare, and economic development.

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Features

Editorial Introduction

The terms "economic efficiency, revitalization, restructuring and reform" have now become well accepted within the postindustrial vocabulary — in fact, warmly embraced. We freely insert these concepts into our narrative pieces as if they had been commonplace through the centuries and there is an international consensus about their meaning. But do they have that consistent a history and is there agreement on how they are defined? The easiest answer is "No."

With many international economists, "economic reform" has been summarily replaced by "economic restructuring", and subsequently adopted by the rest of the world. However, the meaning continues to vary. This eminently fashionable phrase may describe an array of postindustrial phenomena:

- The creation of joint ventures.
- The merging of previously separate businesses and industries.
- The consolidation of product development through new business partnerships.
- The development of "niche" markets.
- The expansion or diversification of products by a single multinational.
- The downsizing of corporate workforces.

Causes

Some of these activities have been characteristic of the economies of industrialized nations for some time. They have fueled economic growth and created jobs. However, the postindustrial period has brought with it new challenges due to heightened international economic interdependence. The basis for these challenges lies in a number of developments:

- The movement of postindustrial nations from manufacturing to services.
- The revolution in information and telecommunications.
- The new political positions affecting social spending and trade relations.
- The increased concern about the planet's physical environment.
- The changed international trade realities.
- The end of the Cold War.
- The development of advanced high-techology products and markets.
- The new alliances between developed and developing countries.

Distinctions

In understanding what is meant by "restructuring" we need, of course, to distinguish between *cyclical* and *noncyclical* causes for economic reorganization. Reduced domestic demand for certain products, trade deficits, and the shrinkage of market share in international competition are largely cyclical phenomena. Firms are pushed to restructure by forces over which they may have minimal or no control. The other restructuring scenario is influenced more by the efforts of management and/or labor to increase economic efficiency and productivity within businesses and industries.

It is important to recognize also that most restructuring efforts are motivated primarily by *economic preservation*, which has the effect of staving off the mass unemployment that would occur with the complete failure of businesses — even though it frequently involves significant levels of unemployment and worker dislocation at the time, and difficult readjustments for many of the workers affected.

The reality is that economic competition is no longer contained within national or regional boundaries. New economic powers have emerged within this altered environment, to compete with the U.S. for international customers, whose needs and desires have also changed. American businesses and industries have had to rise to this occasion, if they were to support general economic health, and the life quality Americans have attained since World War II.

A variety of "restructuring" strategies had to be designed and tested in this context. Some have been successful in preserving economic progress while protecting the gains of the American labor force, and others have not. But these new economic methods have clearly revised the way American businesses operate in the global economic marketplace.

Illustrations

Specific examples of such changes are everywhere apparent. We have seen unprecedented partnerships established among some of the cable television industry's largest companies, which will give customers a new range of telecommunications products and options. These partnerships will not only affect wireless communications but also one-stop shopping for many services.

The rise of Hewlett-Packard in the computer printer market has been a dramatic story. The company now holds approximately 55% of the world market for inkjet printers, and has retrieved the U.S. lead in related technologies. H-P's success has made it one of the two fastest-growing major U.S. multinationals. The company has attributed its success to its heavy investment in laboratory breakthroughs, its drive to capture mass markets and sustain rapid product innovation and price cutting, its trust in local creativity and accountability, and the cutting of its internal operating costs.

Military technology has been applied successfully, in the absence of the Cold War, to domestic and international markets. Scientists who helped the Navy create a sophisticated submarine-tracking computer system are now applying similar advanced digital processing technology to the identification of trouble spots in jet engines, nuclear reactor coolant pumps, and electricity-generating steam turbines. This translation from military to civilian markets has made new economic efficiencies possible.

In the Northwest, we see Oregon's restructuring of the timber industry. Traditionally, Oregon has been the top timber-producing state. The drastic curtailment of logging in federal forests represented a major challenge to the state's economy. But Oregon managed to produce five billion board feet each year using wood from tree farms rather than the 300-year-old trees from public land, and the mills are producing more products out of this timber by using parts that were discarded previously. In the restructuring process, Oregon lost nearly 15,000 jobs in forest products over the past five years, but gained nearly 20,000 in high technology businesses.

Dislocation

Despite restructuring successes, it is clear that the postindustrial period has had its downside. Although we are enjoying general economic growth, there is a long-term increase in income inequality in the U.S. The trend toward a greater gap between the wealthy and the poor is attributed by many experts to wage stagnation and erosion, which in turn is correlated with the shift to a service economy, increased international competition, the decline of unionization, and the decline of the minimum wage.

And certainly the downsizing of workforces is a major restructuring issue. Worker dislocation unquestionably represents another reason for rising inequality. Cost containment in the interest of economic efficiency has led to permanent job loss. Many of the workers laid off are skilled high-wage workers but their occupational expertise provides few if any opportunities to transition to other occupational areas. Many companies have tried to ease the impact of downsizing, but markets and profit margins in emerging economic areas inevitably influence the extent of downsizing. And in some cases mass layoffs have been inevitable if companies are to survive and prosper. Some dislocated workers can be retrained successfully for other occupational niches, but frequently at lower wages. And some fall into poverty.

The recent IBM layoffs are an example of the dislocation often involved in corporate restructuring. Cray Research Inc., a supercomputer maker, recently laid off 1,000 workers to cut its manufacturing costs. American Express planned to eliminate as many as 6,000 jobs in an effort to recover from several lean years, and to save $500 million in expenses which could be used to reorganize and finance new products. Mattell Inc. recently announced a restructuring plan that would eliminate 4.5% of its workforce, which was expected to reduce Mattell's expenses by $25 million in 1995. In 1994, Kmart planned to close 110 stores and eliminate 6,000 jobs, including 10% of its managerial positions, related to its loss of market share to competitors. The Boeing Company's own series of layoffs was due both to reduced customer demand and restructuring in the interest of retaining a competitive edge in world aerospace markets. And these are but a few of the many examples of companies that have had to include layoffs in their efforts to reorganize and compete.

In this issue of *Evaluation Forum*, we explore some of the issues raised in this introduction. In Part I we look at economic change as a context for focusing on workforce issues. In Parts II and III we look specifically at worker dislocation and what is being done to address that contemporary problem.

Economic Change and Displacement

Editorial Introduction

The purpose of Part I of the Features Section is to provide some background information on the recent evolution of the American economy, the influence of the international economic environment on that development, and the impact of economic change on workers affected by it. In serving this purpose, we provide a number of perspectives, from the President's to those of various economists specializing in restructuring and dislocation issues. We conclude Part I with a guest review of three important books that focus more exclusively on worker dislocation.

Presidential Perspectives on Economic Change and Restructuring: An Interpretation

Perhaps the most significant public policy issue of the 1990s has been government's response to economic change — to the cyclical changes we have come to accept and tolerate as an inevitable characteristic of a free market economy, and the economic restructuring that has been occurring in this period of international competition. The former has produced variations in employment. Frequently the latter has resulted in permanent job loss and worker dislocation.

The knowledge and understanding a president possesses about the economy and its larger context, and his policy positions and perspectives on economic issues, influence policy development in a uniquely powerful way within the framework of a tri-partite governing structure. This president has paid unusual attention both to economic problems and economic development possibilities, to the role of the U.S. in the global economy, to domestic workforce development, and to ways in which government and the private sector can work together to assist workers placed at risk in a new economic environment.

Therefore we begin this section with insights drawn from an anthology of President Clinton's speeches prepared for users by the White House Press Office, excerpting from that anthology and communicating key themes with the intent to reflect as accurately as possible what ideas were conveyed through that medium.

Economic History

In remarks at the signing of the NAFTA side agreements in September, 1993, President Clinton commented that after the second World War we refused to let history repeat itself. Rather the United States and other Western powers came together to shape a new era. The American economy was rebuilt. NATO was established. We carried out the *Marshall Plan* to reconstruct war-ravaged nations abroad. New institutions were formed to foster peace and prosperity — such as the *United Nations*, the *International Monetary Fund*, the *World Bank*, and the *General Agreement on Tariffs and Trade.*

These actions, the President said, helped to usher in four decades of robust economic growth and collective security. Yet the Cold War was draining — we had devoted trillions of dollars to it. Now the Soviet Union had disintegrated. The nuclear shadow was receding with *Start I and II.* Democratic governments were emerging around the world.

The President reminded his audience that at the end of World War II an unchallenged America was protected by the oceans and by our technological superiority. We chose, then, he said, to help create a world of free trade supported by institutions that would facilitate it. Global trade subsequently grew from $200 billion in 1950 to $800 billion in 1980. As a result, jobs were created. That decision to create a system of expanded, freer global trade played a major role, he believed, in producing the prosperity experienced by the U.S. middle class after World War II.

This new period of history represented a world America helped bring into being, he suggested — through the period of the Civil War, two world wars, the Cold War, the establishment of global economic and trading missions, and the efforts to build a family of nations and establish other instruments of peace and harmony, of progress and democracy.

But the President also acknowledged that Americans were continuing to raise central questions about our place and our prospects in this new world we had done so much to produce. They were asking questions such as "Will we and our children really have good jobs, first-class opportunities, a world-class education, quality affordable health care, safe streets?" After having fully defended freedom, he realized, they want to know if they will share its bounty.

For the last two decades, he said, the middle class that was created and enlarged by these policies had been under stress due to changes in the global environment, the growth of technology, and increasing economic competition. If we had learned anything from the collapse of the Berlin Wall and the fall of the governments in Eastern Europe and the former Soviet Union, he commented, it was that even a totally controlled society cannot resist the winds of change which economics, technology and information flow have imposed.

When you live in a time of change, he remarked, the only way to recover your security and to broaden your horizon was to embrace change, adapt to it, and move forward. The only way we could recover the fortunes of the middle class, so that people who worked harder and smarter could at least prosper more, he believed, was to adapt to the many changes that were occurring.

He encouraged the audience to recognize how far we had moved from an industrial age built on gears and sweat to embrace an information age demanding skills, learning and flexibility. In this process, record numbers of Americans were succeeding in the new global economy. The economy had generated almost six million new jobs since 1993. We had the lowest combined rate of unemployment and inflation in twenty-five years. Businesses were more productive. We had brought the deficit down to expand trade and give citizens more of the tools they needed to obtain an education and to rebuild their communities.

Workers, Families and Communities in the New Economic Era

However, the President also stated in his remarks at the NAFTA signing that while the nation as a whole had enjoyed peace and prosperity in this era, too many people were working harder for less. While businesses were restructuring and growing more productive and competitive, too many people still could not be sure they had a job next year or even next month. And far more than our material riches were threatened, he insisted — our children, our families, our values were at risk. The common bonds of community which had been the great strength of our country from its beginning had become badly frayed.

Speaking at American University in the winter of 1993, the President pointed out that we were woven now inextricably within the fabric of a global economy. Imports and exports, which accounted for about one in ten dollars now represented one dollar in every five. Nearly three-quarters of the things made in America were subject to competition at home or abroad from foreign producers and foreign providers of services. Whether we saw it or not, our daily lives were touched everywhere by the flows of commerce that crossed national borders. Capital clearly had become global. Services had become global. Information had become global. This was his message.

His position was that the economy was now so globalized and change so institutionalized that no government of any nation could promise to protect people from the changes in the world economy. So if change was inevitable, we had to help people view change as our friend rather than our enemy, a source of security rather than a source of insecurity. And we had to do that in a way that promoted those institutions of society that were most important to us, principally our families and communities.

The changing nature of work, he said, was placing enormous demands on working people. The average worker today in every kind of work had to be able to work with more information, to be more creative, to solve more problems on his or her own initiative. Therefore, the President said, we had to transfer more responsibility to workers at the grass roots level. They had to learn more skills, and process and analyze more information than ever before. Since every American had to face these forces, and every American family did, he felt the job of government ought to be to empower people to make the most of such forces.

When the family is under economic stress, he proposed that workers within families either had to learn more and become more productive, get a better job, or work harder for less, trying to be as sturdy and resilient as the times are. The latter was what had happened to millions of American families for the last twenty years, he said — working harder for less. The average working family was spending more hours at work today than twenty-five years ago, for about the same hourly wages, adjusted for inflation.

The President saw 1973 as the watershed year in American life. From the end of World War II until 1973 family income doubled. We lived in an era of prosperity that we almost came to take for granted. The middle class grew ever larger and more secure. People just assumed that they could obtain jobs they would hold for a lifetime, that they would always do better every year than they had the year before, that they would be able to afford to send their children to college, have a comfortable retirement, own their own house, and take care of their parents. But the reality was, he said, that since 1973 most Americans had worked increasingly harder for the same or lower incomes.

He had other disturbing information to convey. Between 1972 and 1992, while the work year became longer for most Americans, wages stagnated. The 75% of people who did not have college degrees felt it profoundly. Those who began but did not finish college saw their wages fall by 9% just since 1979. For those who did not go on to college, wages fell 17%. And although he pointed out that the U.S. traditionally generates new jobs through international trade, he also recognized that some were lost each year to competition from countries with lower wages or higher quality, or sometimes unfair trade practices.

Median family income today, he added, was only $1,000 higher than it was twenty years ago. And more significant, the growth in *income inequality* between those who were educated and those who were not had escalated dramatically. Even though there were 50% more people in the work force of minority origin with four years of college or more, the aggregate racial gaps in income were deeper because the education gap had grown so great and because inequalities in income had escalated in the last several years. Once Americans looked forward to doubling their living standards every 25 years. At present productivity rates, it would take 100 years to double living standards, he predicted — until our grandchildren's grandchildren are born.

Our society, he said, had suffered unbelievable stresses, as broken homes and unwed mothers had become more commonplace. In places devastated by poverty and despair, we had seen the absolute collapse of families and work itself, and of the sense of community. And into that vacuum had rushed gangs, drugs and violence.

Acknowledging that it was difficult to maintain a sense of security and optimism that a country like ours needed in order to lead the world into the future, he identified a plethora of needs:

- The need for pro-family policies, like the family and medical leave policy enacted into law.
- The need to pass humane welfare reform that encouraged people to be successful parents and workers.
- The need for a national network of manufacturing extension centers to help small firms accomodate to new challenges and acquire new technologies.
- The need for telecommunications reforms that would help the U.S. develop the information superhighway.
- The need to reform U.S. job training programs, especially the unemployment system. *The President reminded his audience that eighty percent of the people losing their jobs today do not get called back to their old jobs. We had become locked into a 1950's system when we needed one for the 21st century that encouraged continuous retraining and placement in the work force.*

International Trade and the Economy

The President also commented that open and competitive commerce would enrich us, spur us to innovate, force us to compete, connect us with new customers. His perspective was that trade promotes global growth without which no rich country could hope to grow wealthier. It enabled our producers to prosper, who were themselves consumers of services and raw materials.

He understood that many Americans were worried that expanded trade would move jobs out of the U.S. because of the difference in wage rates. They had seen this happen. But the President pointed to the eighteen out of nineteen serious economic studies by both liberals and conservatives that had concluded that there would be no net job loss. Businesses do not choose locations based solely on wages, he said. They choose them on the basis of the skills and productivity of workforces, on government attitudes, on roads and railroads to deliver products, on the availability of markets for those products. Those locations were our strength, he believed.

Some of the specific provisions in NAFTA, he said, were important in that respect — for example, provisions that removed some of the current incentives for people to move their jobs across the border, making it harder than before for businesses to relocate solely on the basis of very low wages or lax environmental rules. The environmental agreement applied trade sanctions against any of the countries that failed to enforce their own environmental laws. The agreements also ensured that Mexico would enforce its laws in areas such as worker health and safety, child labor and the minimum wage. In addition, they protected our industries against unforeseen surges in exports from either one of our trading partners.

In his view, we had now created a trade agreement that moved beyond the traditional notions of free trade, putting the environment and human resource considerations at the center of this and future trade agreements. At the same time, the President felt such trade agreements imposed new obligations on American government. Government was obligated to make sure that U.S. workers were the best prepared and trained in the world.

We now know, he said, that the average 18-year-old American will change jobs up to eight times in a lifetime. Over the past ten years, for the first time in history workers losing their jobs often found they could not return to their old job and had to find a new occupational niche. Consequently government needed to develop *a new reemployment system* to replace the traditional unemployment system. We had to be able to tell that subset of workers who became dislocated by more open trade policies that there was a job training and reemployment program available to them.

Once we had put our own economic house in order, he said, we must make trade a priority element of American security, part of an integrated economic program. Then we must do our best to exercise leadership among the major financial powers to improve our coordination on behalf of global economic growth.

Also, he proposed, we must promote the steady expansion of growth in the developing world, not only because it was in our interest but because it would help these countries as well. These directions, he said, constituted an agenda for American action in a global economy, as well as for our own prosperity. Therefore the best investment we could make, he was convinced, was in the one resource rooted within our own borders — *in the education, skills, reasoning capacity and creativity of Americans.*

American Economic Progress

In February, 1993, speaking to a Joint Session of Congress, the President explained that a number of conditions over the 1980s had brought us to a point of decision: two decades of *low productivity, low growth* and *stagnant wages;* persistent *unemployment and underemployment;* years of huge *government deficits* and *declining investment* in our future; exploding *health care costs* and *lack of coverage* for millions of Americans; legions of *poor children;* and *education and job training opportunities inadequate to the demands of an unusually competitive global economy.*

The economic plan he recommended for turning this around involved four fundamental components: a shift of emphasis from consumption to investment; honoring work and family in every part of our public decisionmaking; reducing the federal deficit honestly and credibly, and earning the trust of the American people by paying for this with cuts in government waste and inefficiency, in government spending, and with fairness to those bearing the burdens of these changes.

He felt the key elements of this approach were these:

- Reduce the deficit.
- Expand trade and intensify U.S. government efforts to become a partner with the private sector in doing business beyond our borders.
- Increase our investment in education and training — and in technology and defense conversion.
- Bring the benefits of free enterprise to areas which have been isolated from it, in our inner cities and rural areas.
- Make the federal government more efficient and effective.

Implementing these strategies, he believed, would require a much more aggressive, innovative partnership with the private sector. Government does not have the capacity to "save" the U.S. economy in an economic environment that is global in scope, he said. But government can create the right climate, the right conditions, and can empower people so that they can compete by taking responsibility for themselves and their families. He felt that increasing changes in the world made this imperative.

The President indicated we were not alone in facing economic problems in this new era. Every advanced country was experiencing a common phenomenon: even as economies grew, there were pockets within them that had not been benefited by economic recovery, where investment had not taken hold, where jobs had not materialized. This was particularly true for inner cities and isolated rural areas.The first thing we needed to do in the U.S., he suggested, was to change the job mix, increasing the proportion of high-skill, high-wage jobs. And we needed to provide special incentives for people to invest in isolated areas, using empowerment zones, the enterprise community concept.

In 1994, according to the President, we found ourselves in the midst of the first investment-led, low-inflation, productivity-driven economic expansion in three decades. Something fundamental was beginning to happen, he was convinced — more than half the new jobs created by our economy in 1994 were above the average wage. This was more high-wage jobs in one year than in the previous five combined. Investment in new equipment was eight times what it had been in the previous four years. For the first time since 1979 the U.S. led the world in the sale of automobiles. For the first time in a decade we had nine months of manufacturing job growth. For the first time in nine years the annual vote of international economists was that the U.S., not Japan, was the most productive economy in the world.

But the President also believed we were dealing with some long-term economic problems. The average hourly wage in the U.S. actually peaked about twenty years ago, and working people had been losing their health insurance steadily for about ten years, the only advanced country in the world where that was the case. So there were genuine reasons why a lot of hard-working Americans did not feel more secure or happier with the good statistics and growth rates. They were still not sure that these numbers guaranteed them a good future and a good job, the ability to keep their children's health insurance or put aside money for their college education. They were not sure that the society was going to be able to solve the social problems that violated our values and conscience.

And we had growing poverty. We had to find a way, through both public and private sources, to enhance the lives of the American people who lived in poverty, by bringing investment and jobs to poverty areas. We could not, he said, repair the American family until we provided the structure, the values, the discipline and the reward that work provided.

We needed to recognize also, he said, that well over half the women who were mothers in this country were in the work force. We had to decide that as long as the economy mandated this, and the economic pressures of the time did, we had to find ways for people to be both successful parents and successful workers, and ways of organizing ourselves differently with regard to child care, health care, family leave, and the income of people who had children and who worked but still did not make enough money to support them.

Education and Workforce Preparation in a Postindustrial Economy

Speaking at the University of North Carolina in 1993, the President proposed that economic security could no longer be found in a particular job. It must be rooted in a continuing capacity to learn new things. That condition required a system of life-long learning, beginning with higher standards for schools. Almost two decades ago we began education reform efforts that included higher standards, he said. Now we were trying to adopt a whole new approach in a national effort to raise educational standards. This, he felt, was an American imperative. At the same time he believed we must insure that every young person had the opportunity to obtain a college education. And for the three-fourths of young people who did not obtain a four-year college degree, we needed to merge the world of learning with the world of work, to offer young people classroom and on-the-job training.

In a talk at Rutgers University in 1993, the President reminded the audience that in the midst of World War II President Roosevelt proposed the *GI Bill of Rights*, which offered returning veterans the opportunity for education in return for their service to our country in war. Thanks to the GI Bill, more than eight million veterans received an advanced education. Half a century later, the enduring legacy of the GI Bill was the strongest economy in the world, and the broadest, biggest middle class that any nation had enjoyed.

The *national service plan*, he pointed out, was constructed on the same principles, namely that when people give something of invaluable merit to their country they ought to be rewarded with the opportunity to further their education. The national service plan enabled American students to borrow the money they needed for college and pay it back as a small percentage of their own income over time. The President considered this especially important after a decade in which the cost of a college education had gone up even more rapidly than the cost of health care.

At the 75th anniversary of the founding of UCLA in May, 1994, the President asked graduating seniors to look back at the history of the *Constitutional Convention*. To look at how people assembled wildly different points of view and argued heatedly, but always with a common love for this country and the values of freedom and mutual respect. He felt we had to find a way in this age and time to restore that kind of discourse and that kind of respect. We could not afford to engage in the citizenship of division, distraction and destruction. We had a future to build, through education.

The President had a special opportunity to talk about the meaning of education for American young people at a junior high school in 1994. He explained that the *Goals 2000* proposal embodied ideas gleaned from many years of work on educational issues. It established what kind of education every child needed in every school in America. It set out some goals that were expected to guarantee that young people would be prepared to compete successfully in the 21st century — wherever they were, and whether they came from poor, middle class, or wealthy families.

One of those goals for the year 2000 was for every school in America to offer a disciplined environment conducive to learning. Another was to increase the high school graduation rate by 90% — an international standard. Still another was to make sure that every adult possessed the knowledge and skills needed to obtain and retain a good job, a job as good as people had in other postindustrial countries.

At the signing ceremony for the *Goals 2000: Educate America Act* in March of 1994, the President remarked that this legislation set world-class *educational standards* for what every child in every American school should *know* — for reading and writing, math and science, history, geography, foreign languages, civics and economics, and the arts. It also said something about teachers. We had to prepare them better, enable them to *continue* to learn. And it said something about parents. In a world in which families were under increasing stress, the President said we must find ways to help them become more involved in their children's education. And the legislation acknowledged that we needed more research and innovation so we could generalize the use of *successful models and strategies*.

Besides academic standards, the President reminded the audience that *Goals 2000* set *national skill standards* as well, to ensure that our workers were better trained. It gave states the flexibility to meet educational and skill standards according to their own needs and ideas, stimulating well-planned experimentation. He felt strongly that innovations needed to be encouraged and rewarded, evaluated for their efficiency and effectiveness, and if successful adapted for use elsewhere. This would be a departure from our past. There had never been any national standards. There had never been a formal way to measure whether or not educational and skills acquisition goals were being met.

In the past, he said, everyone who was willing to work could find work. Today, more than ever before, whether you had a job or not, how much you could earn in a job, and what your future was, depended on how much you could *learn* — not just what you knew but how much you could learn. Research was indicating that people who graduated from college made twice as much as those who did not. The world, he said, was increasingly smaller, changing very fast. People were connected financially and by communication networks that were unheard of earlier. Therefore we had to be able to learn new things continually.

The President's perspective on our future was that we must view ourselves more as an extended family, a large community, and look at all the people in this society as an enormous resource. If we did so, we would reinvigorate our educational and training systems. He said we needed to make sure that our movement into the 21st century was grounded in an old idea, that all Americans have not only a right but a responsibility to rise as far as their talents and determination can take them, and to give something back to their communities and their country. We needed a new set of understandings, he thought, about how we can equip people to meet the challenges of the new economy, how we can change the way government works to fit a different time, and how to repair the damaged bonds in society. The future was not an inheritance, he said. Rather it was an opportunity and an obligation, something every generation had to create.

Understanding and Adjusting to Economic Change

Economists' perspectives on the economy, how it works, how it is changing, differ with their theoretical training and orientation. Although this intellectual attribute confuses us, it also expands our minds. In this article we look at perspectives embodied in several chapters of a book published by the Urban Institute, *Rethinking Employment Policy,* edited by D. Lee Bawden and Felicity Skidmore. The book is one in a series of publications sponsored by the Institute's *Project on the Federal Social Role* funded by a number of private foundations. Although the book was written in 1989, prior to additional changes in the American economy and the role of the federal government, its insights nevertheless apply usefully to the 1990s.

The book takes a retrospective look at what is known and remains to be understood about dealing with domestic and international issues facing the U.S. labor market in this decade. The challenge the editors pose at the beginning of the book is to find a method for 1) maximizing the potential of our workforce without creating inflation, and 2) targeting job training and employment programs to those who can benefit the most from them, so that our resources are used efficiently.

Bawden and Skidmore identify two major themes that guide the book. One is that U.S. employment policy has not met the goals envisioned in the early 1960s as achievable. The other is that we now know enough from analyses and research that shaping a more effective future employment policy is possible and should be done.

Employment Policy History

In their introductory chapter, the editors suggest that the employment and training policies of the 1960s and early 1970s, which represented a policy change as well as increased funding, generated a new interest in identifying and addressing the problems of disadvantaged workers, the structurally unemployed, and those experiencing discrimination in the labor market.

There was a significant expansion of programs to train and retrain workers, increase UI benefits, create public service jobs, and ensure equal opportunity. Even though the problems that prompted this policy change have not faded away, the times have changed, they point out. In the 1980s, the combination of a conservative president, fiscal pressures to cut budgets, and negative public perceptions of certain programs shriveled employment policy. The editors predict prophetically in this introduction that the American public is not likely to support a more aggressive and expansive policy, if based on the full array of past strategies.

Meanwhile, they insist that some of the troublesome problems of the past remain to be solved. In fact there is more concentrated structural unemployment, expanded underemployment, an increase in worker dislocation, and continuing discrimination in the workforce. They propose that the solutions to these problems must be crafted in the context of important social, economic and demographic changes that have taken place since the 1960s, and must take advantage of what has been learned over the past several decades. The changes they claim we must respond to are these:

- Changes in the composition of the workforce — that is, more older workers and women — requiring the adjustment of retirement policies, wage structures, working hours, and services such as child care.
- Changes in equal opportunity and affirmative action policies responsive to less overt, more subtle forms of racial and sexual discrimination.
- Changes in our educational system, given that over one-fourth of the adult population lacks a high school education, and may lack the basic skills that support training and retraining for the expanding high-technology and service jobs of the future.
- Changes in our approach to poverty, given growing income inequality.

These changes provide the context for the perspectives of other economists in *Rethinking Employment Policy.*

Ray Marshall's Perspective

Former Secretary of Labor, Ray Marshall, concentrated his chapter on "The Implications of Internationalization for Labor Market Institutions and Industrial Relations Systems." It is Marshall's thesis that the internationalization of economies and the globalization of markets between 1950 and 1980 have been the most important economic trends since World War II. He supports this contention with adequate evidence. By 1987, he says, over half of U.S. corporate profits derived from overseas. International trade accounted for one-third of all U.S. cropland, one-fourth of farm income, and one-sixth of all jobs. Nearly 70% of all goods manufactured in the U.S. was competing with imports. Close to 25% of the growth in the U.S. workforce during the 1970s involved immigrants and refugees.

These changes, he says, have altered the effectiveness of traditional macroeconomic policies. The integration of markets globally has transformed labor market institutions and industrial relations systems, as well as influencing management practices.

The Evolution of Economies Since World War II

Marshall explains that after the WWII, governments viewed an open, expanding trading system as the best way to encourage the growth of world economies. Many experts had linked protectionism and trade restrictions with the Great Depression and the war itself. As a preventive measure, the U.S. and other countries worked together to form institutions, policies and procedures to encourage and maintain international trade and finance. This free-trade system became known as the *Bretton Woods system.*

It was organized around three basic principles: 1) free trade, 2) fixed exchange rates, and 3) autonomy in domestic economic policy. The world's welfare was considered to be increased by a competitive, free-trade, open-market system in which each nation would concentrate on producing things which would give it the greatest or the least advantage economically. This idea was referred to as "the doctrine of comparative advantage."

Alongside this doctrine, a critical influence was the power of the U.S., according to Marshall. Our domestic economy had been strengthened by World War II, having benefited from technological development during the war, which supported an enormous growth in productivity and total output. This economic dominance translated to policy dominance. It was therefore in our national interest to advocate for a relatively open and expanding world economy.

But even as the Bretton Woods system encouraged growth in the international economy through the 1960s, certain events were to begin to tear it apart, Marshall explains. These were some of those events:

- The abandonment of the fixed exchange rate system.
- The massive increase in foreign investment and related flows of capital.
- The growth of the Eurodollar market (dollars held and traded abroad).
- A large increase in U.S. debt and the debt of non-oil-producing developing nations.
- Large-scale movements of workers among countries in response to employment and income opportunities.

Some Implications of Internationalization

Marshall sees both positives and negatives in this internationalization of markets. The positives are increased efficiency and expanding knowledge, which raised living standards. The negatives are the destablizing influences accompanying this development. International economic rules that worked for the 1950s and 1960s no longer applied.

Countries are not as effective in directing their policies concerning the international economy, Marshall says, and the effects of domestic economic policies have changed. The impact of economic stimuli in a period of economic depression, for example, limits domestic economic expansion by increasing foreign imports — a serious problem for the U.S. during the 1981-1982 recession when foreign imports cut into increased demand. And the consequences of U.S. budget deficits are not under as much control. This lowers U.S. living standards and can raise inflation, he says. It also forces other countries to keep their interest rates high. These destabilizing effects have brought pressure on policymakers to reconsider the Bretton Woods system.

The reality has strayed from this system's theoretical underpinnings. Competition, Marshal says, does not direct domestic markets, therefore countries do experience unemployment. Therefore many industrial countries have now supported strategies that both create comparative advantage and improve the industry mix. And Marshall claims that economic activity is now based on national and enterprise strategies, not simply on the interaction between short-run market forces and the maximization of profits.

Japan, for example, is more interested in strengthening national power, productive capacity, and market share, he says, than in "short-run profit maximizing." Also, economic change is not gradual, Marshall points out. Trade is no longer limited to "goods at the margin." Whole technologies are exported, and countries share the production of products. The result , he says, is potential job loss, wage suppression, and less satisfactory working conditions.

The Potential Loss of the U.S. "Competitive Edge"

Marshall reports that the President's 1985 *Commission on Industrial Competitiveness* conveyed a dour assessment of the American economy — that business and industry's ability to compete successfully in world markets had been declining for over twenty years, even in high technology sectors. Conclusions from other analyses elaborated on this assessment. Marshall cites two studies in the mid-1980s by the Brookings Institution and the New York Stock Exchange that reach other conclusions. These were the major findings:

- An overvalued dollar, due to huge U.S. budget deficits, is the main cause of our economic problems. Given this scenario, the analysts concluded that the economic boom of the 1950s and 1960s was "abnormal" and the economy would return to "normal" as soon as the budget was balanced.
- Trade was the factor most responsible for a net increase in jobs in the 1970s — we gained more employment from trade than we lost to it.
- Trade was not the main reason for declining employment even in the industries experiencing the greatest declines.
- U.S. industrial performance was strong relative to other countries — first or second in the world in 23 out of 40 manufacturing industries in 1982.
- Most job losses were concentrated in four key depressed industries which accounted for only 20% of total manufacturing output. The 36 industries that dominated manufacturing actually added jobs between 1977 and 1982.
- The growth in productivity had been slowing since the 1960s, but in manufacturing it had been particularly strong.

In this generally more optimistic perspective, poor production performance was seen to be correlated with energy price shocks, inflation and economic uncertainty, none of which were thought to interfere with performance.

The analysts pointed to the expansion of real plant and equipment spending, increased funds for research and development, increased efficiency due to the accumulation of work experience by baby boomers, a better educated workforce, and a significant improvement in labor-management relations tied to the need to become more competitive.

But there was a remaining residue of pessimism, exemplified in the Harvard Business School's analysis. The main conclusions, according to Marshall, were the following:

- A more realistically-valued dollar is not the answer, because the structure of trade has changed. The economic recovery from the 1981-1982 recession has led to slower growth in exports and faster growth in imports than in previous recoveries. The return of business assets has failed to keep pace with the rising cost of capital.
- Energy prices were an important factor in trade deficits in the late 1970s and 1980s, but there was also a decline in non-energy trade balances as well.
- Market share in constant dollars is not the only, or the most significant measure of economic performance. Performance is determined also by the relative values of exports and imports. Our share of total world exports has declined.
    - The U.S.'s share of high-technology exports has fallen also.
    - U.S. productivity growth has been far below our competitors, even though their economies have remained depressed.

The pessimists have discounted many of the optimists' tenets, indicating that the evidence shows that in manufacturing, productivity growth has deteriorated "despite improvements in both capital formation and capital-labor costs."

Marshall's Viewpoint

Marshall draws from both perspectives, acknowledging that the U.S. is still the strongest world economy and likely has the highest average productivity levels, even though we appear to be losing that advantage rapidly. He believes that macroeconomic policies and the expensive dollar are important factors. But he thinks the pessimists are correct in being concerned about maintaining market positions "without sacrificing return on assets, or real wages or incomes" — that is, he feels our living standards are going down. His position is that analysts are on target in taking seriously how we are doing vis-a-vis countries like Japan. *Productivity growth is the key to maintaining competitiveness,* in Marshall's mind, and therefore *for sustaining high wages and profits.*

He also sees *the composition of industry* as an important influence. Studies that treat all industries the same are missing critical information, he says — "there are dynamic and symbiotic relationships between production activities and technology transfer." Also, he reminds us that the linkages between economic activities and technology are cumulative. A lack of competitiveness in key industrial sectors may lead to their loss, which then removes from remaining businesses the technological supports, the learning accumulated, and the networks developed that are required for them to stay competitive.

Marshall's Recommendations

Having established that the Bretton Woods system no longer works in the postindustrial era, what does Marshall suggest? One answer, he says, is to restrict the growth of the international trading system — an answer he rejects out of hand. Trade restrictions, he says, can worsen economic problems because it produces retaliatory action.

The right answer, in Marshall's view, is to *promote an open and expanding trading system* guided by 1) internationally acceptable rules that can be enforced, 2) international economic policies, and 3) international economic institutions. Also needed are *coordinated macroeconomic policies and strategies that avoid over-valuing the dollar.* And finally we need to *reform our industrial relations system,* to improve economic stability and employment and reduce unemployment.

Most of the features of the Bretton Woods system were characteristic of all industrial nations, and some of these features persist. However, Marshall teases out certain elements that have been unique to the U.S. and must be considered in developing a new industrial relations system:

- American unions were considered the bargaining agent for all employees, whether union members or not. However, the legal right of workers to vote for or against union membership created competition for employees' loyalty between union and non-union sectors, and between unions and employers.
- Collective bargaining was decentralized, emphasizing wages, hours and working conditions in particular firms, industries and labor markets.
- U.S. employers were generally hostile to unions, despite the affinity of the American labor movement for the capitalist system and its flexibility in responding to the interests of employers.
- A "scientific management system" was used by employers which was generally authoritarian and adversarial, allowed only minimal participation in decisionmaking by workers, and provided minimal job security.
- Union politics were not class-conscious, rather they focused on jobs and economic security rather than on an organizational or political base for the working class.
- Management felt they had a right to lay off workers during economic downturns since the expectation was that business cycles would keep layoffs temporary, and the UI system would provide adequate temporary assistance.

- The American system was more flexible than most European industrial relations systems in adjusting to change, due to:
  - The principle of exclusive bargaining.
  - The more decentralized bargaining system.
  - The lower degree of unionization.
  - The greater ease with which employers could close plants and lay off workers.
  - The greater openess to immigration and imports.
  - The greater displacement of labor, resulting in pools of underemployed workers.

These elements supported a long period of relatively high growth in production and output, and moved most union members into the middle class. But the system tended to be inflationary. The bargaining approach tended to raise wages by playing one employer or union against another. Long-term union contracts with cost-of-living adjustments and annual increases in benefits tended to inflate the compensation base. UI and other income maintenance programs reduced the impact of labor supply on wages, just as multiple wage-earner families did. Full employment policies reduced employers' incentives to avoid wage increases and unions' willingness to hold them down. As a result, Marshall says, *insufficient attention was focused on the level of productivity and the degree of economic efficiency.*

Marshall looks to the Japanese system for answers. These are the major characteristics that capture his attention:

- Highly integrated, consensus-based economic policies emphasizing upgrading of the Japanese industry mix.
- A management system supportive of labor-management cooperation and participation.
- Mechanisms within firms that help absorb demand shocks, such as bonus compensation systems, sharing of production with Third World countries, subcontracting, and the use of temporary workers.
- The ability to shift resources from non-competitive to more competitive industries.
- An emphasis on lifetime employment, continuing education, the concentration of collective bargaining at the enterprise level rather than at the industry or sectoral level, and the annual adjustment of wages (precluding internal competition on the part of employers and unions.)
- Heavy emphasis on consensus-building at every level, rather than on detailed regulations.
- A bonus wage payment system that keeps wage increases in bounds.
- A flexible job assignment and training process that increases workers' job security and employers' willingness to finance long-term education and training for their employees.

But Marshall does not leave us here. He points out that the U.S. has higher overall productivity and living standards than Japan, and some sectors of the Japanese economy, he says, are not particularly productive or efficient. Nevertheless, the Japanese system provides rising real incomes and much more job security. And it is more egalitarian in terms of income differentials. Beyond that, Japanese workers see a strong relationship between improvements in productivity and the employment benefits they receive, which generates a considerable incentive. The cooperation between public and private sectors makes it possible for businesses to be satisfied with lower rates of return, which then encourages long-term planning.

Marshall's diagnosis of our problems and possibilities has garnered wide support from other respected economists, is generally supported by the Administration's economic and industrial relations system reform ideas, and has been taken seriously by the larger corporations. However, the impact of these ideas on reducing dislocation has yet to be determined.

Another Perspective: Goals for National Employment Policy

Isabell V. Sawhill's perspective on economic issues is also enlightening. She defines four goals for employment policy:

- The provision of jobs — i.e. the reduction of unemployment.
- The creation of more good jobs — i.e. the improvement of productivity and earnings.
- The provision of assistance to the disadvantaged — i.e. making the poor more self-sufficient.
- The improvement of the functioning of labor markets using means that guarantee economic efficiency and the fair treatment of workers.

She views these goals as serving dual purposes: human welfare in society, and the economy's long-term growth and productivity. The strategies she recommends for achieving the four goals are these: 1) macroeconomic policies; 2) job creation policies, such as subsidized employment in the public and private sector; 3) education; 4) income transfers; and 5) government regulation. She considers the public education system the strategy of choice for creating better jobs through improved productivity. In providing jobs overall, macroeconomic policies are primary, she believes. Income transfers are important in assisting the disadvantaged, even though concern about work disincentives and long-term dependence remain.

With respect to the goal of improving the functioning of labor markets, she gives attention to worker protections and benefits — that is, to protective labor laws; anti-discrimination laws; job security; retirement, disability and unemployment insurance; pension rights; and notification of layoffs. While the protections and benefits are of critical importance to workers, she says, they may also reduce economic efficiency. Employers find it more difficult to adjust to changing market demand. This is the perennial tension between equity and efficiency that economists have been struggling with since Adam Smith.

Resolving Problems in Meeting Goals

What Sawhill suggests is that we find more flexible and less costly methods for resolving the tension, weighing costs vs. benefits more carefully. The current labor market and industrial relations system, Sawhill says, "evolved as a requirement of a modern economy built on the principles of specialization and large-scale production." These principles served us well, she recognizes, greatly increasing productivity and America's standard of living.

However, little attention was paid in this system to workers' rights and protections, which led to unionization and to an array of protections and benefits. And the industrial system that initially gave us prosperity was ill-suited, she claims, for a world in which the labor force is educated, workers make demands, services and information replace standardized goods, and capital and technology are widely available. These changes have created a climate for workplace reform in the direction of worker satisfaction and participation, and new styles of corporate leadership. How successful this new direction will be, Sawhill says, is yet to be established.

Some Conclusions

One of the most difficult trade-offs in achieving the goals Sawhill proposes is between employment and wages. More jobs can be created if Americans would accept lower wages, she points out. Alternatively, wage levels could be increased at the risk of greater unemployment. The choice is more disturbing, she suggests, in an economy that is vulnerable to increased foreign competition, since our standard of living can be greatly influenced by that choice. We could, she says, compensate for choosing higher wages through a combination of 1) trade protectionism, 2) a stimulative fiscal and monetary policy that reemployed displaced workers, or 3) a decline in the value of the dollar — but these solutions would, she believes, lead to an erosion of the purchasing power of higher wages and deteriorate the standard of living.

Whatever the strategy, Sawhill feels we must make special efforts to assist the disadvantaged. Her perspective on programs to reduce youth unemployment and welfare dependency is that adverse economic and demographic forces are more responsible for slow progress than the programs developed for that purpose — and that some of these programs have been, in fact, quite successful.

A Brief Commentary

These selected perspectives on the economy provide important lessons about potential relationships between economic policies, unemployment and dislocation, despite the differences among labor economists in the nature of the evidence they interpret, their conclusions from this information, and their recommendations for change. On one point there is agreement among them: it seems clear that the industrial relations system of the 1950s and 1960s is no longer viable in the 1990s and must be revised substantially in the context of postindustrial international competition.

A Challenge in Restructuring: Efficiency Vs. Equity

In this article we review ideas in two books whose topics are relevant to the perennial dilemma posed by efforts to increase economic efficiency without jeopardizing economic equity. Resolving this dilemma has important implications for worker dislocation, since dislocation is frequently a product of efforts to increase economic efficiency but often leads to increased income disparity.

Both books are Brookings Institution publications. We first give attention to *Growth With Equity: Economic Policymaking for the Next Century,* written by Martin N. Baily, Gary Burtless, and Robert E. Litan in 1993. And then we turn to *A Future of Lousy Jobs? The Changing Structure of U.S. Wages,* edited by Gary Burtless in 1990.

Themes in *Growth With Equity*

The authors' position is that the American economy exhibits two worrisome trends: slow improvement in productivity growth, and growing income inequality. Short-term fluctuations in the business cycle and in unemployment are not their primary concerns in this book — it is long-term patterns that concern them:

- What will economic recovery mean?
- How can we boost the rate of long-term growth?
- How can income disparities be reduced?

These questions frame a fascinating book that provides insights based on an increasingly large body of evidence about long-term economic performance and its implications for equity issues. The authors' approach, they want us to understand, is "eclectic" and "cautious." No single policy is envisioned as the magic bullet. They view their recommendations as modest, in the sense that they are designed to increase the *probability* of achieving progress in resolving productivity and income inequality problems.

A premise is that appropriate policies for increasing economic growth and bringing greater equity to the distribution of income are inevitably interrelated. The economy, they say, can grow faster if the low-skilled and low-incomed can produce more and higher quality goods and services per hour worked. Skilled workers, they contend, have greater flexibility and mobility, which means they can move from declining to expanding industries with shorter periods of unemployment following job loss. If unemployment is so reduced, the economy can be pushed to lower levels of unemployment without serious levels of inflation. At the same time, the problems we associate with poverty will not be sapping the economy if its resources as much.

With respect to income inequality, the authors state unequivocably that their interest is not limited to strategies that reduce poverty, rather they are concerned about changing the conditions that lead to low earned income among the least skilled. However, they recognize that some policies that speed long-run growth do not support equity, and policies that are consistent with equity do not necessarily increase economic growth.

Their main contribution to thinking about these complex issues is a *comprehensive framework and strategy* —a mix of policies and programs —*for encouraging long-term economic growth while maintaining equity.* This policy model is based on assumptions about the underlying causes of slow growth and increased inequality, such as:

- The impact of oil price shocks over the last two decades.
- Reduced innovation.
- An increase in regulation.
- Deteriorating educational performance.
- Stronger foreign competition.
- A stagnant minimum wage.
- Declining unionization.

The model also depends on one's *definition* of growth and productivity. By faster growth, the authors mean both a more rapid rate of advance in total output and a faster rate of increase in output — "holding constant the amount of inputs used to produce that output." A labor force that works more intelligently to produce goods and deliver additional services with the same amount of work effort is at an advantage. *Advantage is achieved by raising labor productivity.*

Economic growth refers to the growth of *potential output*, "the output that can be attained when labor and capital are fully employed and inflation is not accelerating." Economic growth is spurred, the authors say, by advances in technology, by improvements in workers' skills, and by progressive management practices. When the authors talk about *income inequality*, they are referring to inequality in pre-tax incomes as well as after-tax incomes — in market incomes, particularly wages.

In commenting on their comprehensive policy model, they acknowledge that the research evidence does not support all of their recommendations equally well. But this does not deter them. Using a medical analogy, they point out that one cannot always expect existing scientific information to provide conclusive answers about alternative treatments, but this is hardly a reason to abandon the search for evidence or to avoid making policy suggestions. And so they do make them!

An Agenda for Growth and Equity

Three broad themes run through the large set of proposals in the authors' model: *increasing and reallocating investment; assisting workers; making hard choices;and implementing change.* The proposals subsumed under these themes are organized into several policy categories: *innovation, labor, investment, and trade and foreign investment policies.* For each proposal in the model, there are qualifications:

- Whether or not the policy contributes to economic growth or to economic equity, or to both.
- How substantial the proposal's benefits may be in resolving one or the other, or both.
- How strong the evidence is from research and expert opinion in supporting the wisdom of the proposal.

Of these proposed policies, *labor policies are considered the most supportive of both growth and equity.* The full complement of recommended policies is presented in Figure 1.

The authors' proposals are designed to speed economic change by increasing productivity growth, while easing the burdens of change for workers and their families. But the authors remain humble about the impact of such proposals, hoping for substantial improvements if not dramatic results. They are convinced it is time to develop a comprehensive set of interelated policies as well as for realism. Inaction, they say, is an unacceptable strategy.

The Issue of Earnings Inequality

Gary Burtless' edited volume, *A Future of Lousy Jobs?* speaks directly to the equity issue. In the introductory chapter, Burtless identifies the problem. Over the last two decades, the share of all income obtained by the richest fifth of families in the U.S. has increased by 3.3% to *43.7%.* The share received by the poorest one-fifth has fallen 1% to *4.6%.* Incomes of the group of families just below the richest rose slightly, while the incomes of those groups of families just above the poor fell. These shifts, Burtless concludes, have reversed the trend over much of the postwar period, a trend that saw this gap shrinking.

Causes of Inequality

Since the main source of income for most Americans is wages, one cause for rising income inequality is thought to be the decline in middle-class jobs with high to moderate wages. Not all economists agree that this is the major cause, but most agree that average earnings growth among production workers has stopped in recent years after rising strongly over the early postwar period. This sharp decline since 1973 is related, Burtless says, *to the slowing of productivity growth,* but again economists are not of one mind about why this change has occurred.

One problem is defining and measuring *productivity* and *wage inequality.* For example, Burtless proposes that an ideal measure of worker compensation would include both wages and fringe benefits per hour or per forty-hour workweek, but the Census does not collect enough information to calculate this.

Another way to measure inequality is to look at the distribution of wages and calculate the trend in earnings for workers at selected points in the earnings distribution. This method indicates that *inequality is rising among men but falling or remaining fairly stable among women.* Given this result, one could propose that middle-class jobs are declining for men, but not for women.

Between 1973 and 1987, the earnings gaps between well-paid and moderately-paid workers, and between moderately-paid and poorly-paid workers have grown over time, particularly in the 1980s. The number of men with earnings close to the median wage level has shrunk. *Jobs near the middle of the male distribution have disappeared.* Burtless points to two reasons for these changes that have been explored by economists: 1) shifts in the composition or aggregate level of labor supply, and 2) the changing pattern of demand for U.S. workers.

Composition and Demand Shifts

The rise in the number of poorly-paid jobs might be related to an increase in *employers' use of less skilled labor* — but Burtless says this is contrary to the evidence. If employers were hiring less skilled workers, the wages of these workers would be elevated relative to those received by better skilled, more educated workers. However, the opposite pattern occurred in the 1980s. Also, joblessness among the less skilled should in-

Figure 1 ▪ Policies Recommended by the Authors

Innovation Policies

- Strengthen basic science research:
  - Authorize oversight on the part of the National Science Foundation.
  - Re-examine the allocation of the current federal budget.
- Strengthen precompetitive R&D:
  - Fund only projects with private sector financial support.
  - Fund a broad diversity of projects.
  - Create a Civilian Technology Board to provide peer review.
  - Fund precompetitive research.
- Promote commercial R&D by doubling the R&D tax credit.
- Lengthen business time horizons:
  - Encourage equity ownership by bankholding companies.
  - Institute tax penalties on executive director stock options with short exercise periods.
  - Institute tax penalties for paying directors in cash.
- Reduce risks of innovation:
  - Adopt modest "tort" reforms, accompanied by strengthened R&D and enforcement by regulatory agencies.
  - Continue to allow joint R&D.

Labor Policies

- Improve skill training of schools.
  - Encourage schools to provide high school transcripts to prospective employers.
  - Require national standardized tests.
  - Tie compensation and promotion of teachers and principals to performance of students on national tests.
- Improve skills of current labor force:
  - Establish public-private labor authority to develop tests and credentials for non-college occupations.
  - Institute pay-or-play training requirement for non-college-educated workers.
  - Establish national apprenticeship program for non-college-educated workers.
- Establish improved R&D programs for such public training efforts as Job Corps and JTPA.
- Encourage firms to link worker pay with division of company-level performance.
- Cushion economic shocks:
  - Upgrade national and state employment services.
  - Establish a non-cause-related program of earnings insurance.

Investment Policies

- Raise investment share of total output:
  - Reduce, and ultimately eliminate, federal budget deficit.
- Encourage particular types of investment with spillover benefits to the rest of the economy.
- Enact a permanent 5% income tax credit for equipment investment.
- Spend somewhat more on infrastructure, concentrated on upgrading existing facilities.
- Encourage regional industry "clusters" by states or localities.
- Allow banks to meet requirements through investments in community development banks.

Trade and Foreign Investment Policies

- Encourage further multilateral liberalization of trade and foreign investment.
- Use liberalized and more rational treatment under U.S. "unfair trade practice" status as carrot to obtain better access to foreign markets.

crease under this theory, yet unemployment rates for the less skilled have risen relative to those more experienced.

The declining wages of less skilled men may be due to a variety of *shifts in the structure of labor demand,* Burtless indicates. Demand for less skilled workers could have decreased due to collapsing demand for the goods or services produced by industries in which less skilled labor is concentrated. Unskilled workers displaced by this shift would have been pushed to seek employment in other industries, forcing down the wages paid to unskilled labor in those industries. Changes in the technology of production may have depressed the demand for less skilled labor in selected industries or across industries.

Or the *decline in average wages received by unskilled workers* could be due to sharp employment losses in industries such as mining and durable manufacturing that normally paid high wages to less skilled workers. Fewer unskilled workers will be employed in high-wage industries. And by directing displaced workers into low-paying industries, the average wage received by low-skilled workers in those low-wage industries could be depressed.

Changes in the labor supply, according to Burtless, can have two kinds of effects on the wage structure. An increase in the number of less skilled workers will raise the proportion of all workers who receive low wages. Increased competition for less skilled jobs may depress wages relative to those received in more skilled occupations. Both of these effects have, in fact, occurred. Some of the differences between men and women may reflect *sex segregation in the labor market and different trends in labor demand.* If moderately-paid men are concentrated in declining industries, Burtless points out, "middle-class jobs could be disappearing for men even as the distribution of wages among women remains virtually unchanged."

Major Patterns

Meanwhile, the pattern of employment gains and losses emerging in statistical analyses generally confirms the proposition that *the number of jobs in better-paid industries has declined relative to the number in the worst-paid trade and service sectors.* Between 1967 and 1977 this pattern was similar for men and women. From 1977 through 1987, *the loss of goods-producing jobs* continued, but was more rapid for men than for female workers. This may explain, in part, the diverging patterns of wage gain for men and women.

The *declining importance of labor unions* may be another contributor to the patterns observed in the data. Unions assist workers in raising the earnings of moderately-paid workers and frequently reduce wage inequality. Also, *the erosion of the value of the minimum wage* has affected the relative earnings of people at the lower tail of the wage distribution.

Burtless says a striking trend in the wage structure in recent years is the *continuing and pronounced drop in earnings among less educated men.* In an era in which an increased proportion of the workforce has some schooling beyond high school, workers who have had no more than a high school education appear to face growing handicaps in the labor market. This is due, Burtless reports, both to shifts in labor demand and in labor supply. The most important factors in increasing wage differentials between less skilled and more skilled workers appear to be:

- Changes in industrial structure.
- Declining rates of unionization.
- The fact that the number of college-educated young men entering the workforce failed to keep pace with the rising demand for highly educated workers.

Some economists have proposed that the *rise in part-time employment* in the U.S., and the effect of *government income maintenance* has contributed to wage inequality. However, Burtless reports that the research does not support this contention.

Burtless' Conclusions

The evidence from research is quite persuasive, Burtless believes, on several points:

- Wage inequality has risen among men, but not among women.
- It is extremely unlikely that part-time jobs or welfare state programs have contributed to changes in the wage structure.
- The direct and indirect effects of supply-side demographic trends have contributed in a significant way to wage developments.
- The long-term trend toward higher joblessness, particularly among prime-aged men, has contributed, to some extent, to earnings inequality.
- Changes in the industrial structure and the decline in unionization have contributed importantly to inequality. The deteriorating quality of American schools has left a generation of workers poorly prepared to deal with the challenges of modern employment.
- The changing structure of demand for skilled and unskilled male workers within industries has contributed to inequality.

Burtless concludes that if the demand for unskilled labor has dropped, the obvious policy response is to improve the qualifications of the less skilled to match the developing requirements of the job market. "If the nation has too many unskilled workers, rather than too many bad jobs," says Burtless," both efficiency and equity will be served by improving the skills of workers now lodged at the bottom."

A Commentary on the Brookings Books

These two books are useful companion pieces in gaining a better understanding of the trade-offs between economic efficiency and equity. Clearly there are substantial differences in the perspectives of different economists, in terms of theories, the assumptions driving those theories, the interpretation of research findings, and strategies to resolve efficiency and equity problems. The phenomenon of dislocation is caught in this web of information. The data on reemployment wage rates for increasing numbers of dislocated workers, which typically involve a depression of their previous wages, must be figured into these analyses and the patterns emerging from them.

Understanding the Context of Dislocation

The purpose of this short article is to encourage you to read further in the literature on restructuring and dislocation. Four books worth the effort are the following:

- *Technology and Global Industry: Companies and Nations in the World Economy,* edited by Bruce R. Guile and Harvey Brooks and published in 1987 by the National Academy Press.
- *Technology and Employment: Innovation and Growth in the U.S. Economy,* edited by Richard M. Cyert and David D. Mowery, also published by the National Academy Press in 1987.
- *Innovation and the Productivity Crisis,* by Martin Neil Baily and Alok K. Chakrabarti and published by The Brookings Institution in 1988.
- *Economic Restructuring and Emerging Patterns of Industrial Relations,* edited by Stephen R. Sleigh and published by the W.E. Upjohn Institute for Employment Research in 1993.

Themes and Recommendations

We merely provide glimpses of the wealth of information and insights in these books, as an incentive to readers to look for more.

Economic Restructuring and Emerging Patterns of Industrial Relations

The Sleigh book was based on a year-long series of seminars sponsored by the City University of New York, ending in a major national conference in 1990. The purpose of the book was to summarize and comment on innovative economic restructuring *jointly undertaken* by corporations, unions and government. Sleigh says that the economic shocks of technological change and global competition created fundamental changes in economic systems in the past two decades. Dislocation has been a major legacy, requiring new roles for workers, management, labor and government in economic development — and a coherent economic restructuring strategy.

The book examines three main issues: 1) the extent to which work organization and market share, or competitive position, are influenced by technical innovation; 2) how these changes are conditioned by government policies, and 3) what role collective bargaining relationships between unions and companies play in the economic restructuring process. A series of case studies of cooperative restructuring efforts, both in Europe and the U.S., are used to extract lessons for American policymakers.

A number of themes permeate the book. An interest in *team-based work organization* is one, emphasizing the participation of workers in areas traditionally reserved for managerial decisionmaking. *Interfirm linkages* is another interest — among companies, their suppliers, and their clients. Locating the development of industrial policies at the subnational or regional level is another emphasis, encouraging a mutually-reinforcing network of key actors.

And these are some of the lessons:

- In the absence of a national industrial policy, the efforts of state governments have created a common direction that supports an economic restructuring process integrating social goal-setting while retaining the efficiency of market competition.
- Governments cannot influence economic development positively without sponsoring joint efforts among business, workers and unions.
- Transnational economic alliances and investment have blurred the national identity of corporations and made it more difficult to develop a national industrial policy.
- A national industrial policy needs to be developed, however, based on a synthesis of what has been learned about collaborative restructuring efforts — that is, from the transnational borrowing and adaptation of ideas.

The essays in the book identify both the challenges and the opportunities that exist in developing alliances that can have economic value. The authors seem to agree that the best role for the federal government is to facilitate and coordinate activities at the regional, state and local level, and provide an information clearinghouse on best practices. The most important conclusion seems to be that without some kind of institutional base for supporting economic restructuring, short-term political pressures will overwhelm the longer-term needs of industrial economies.

Technology and Employment

The Cyert book grew out of the Committee on Science, Engineering and Public Policy of the National Academy of Engineering, prompted by the Committee's interest in the impact of technological change on employment opportunities, productivity and life quality. The theme is that employment losses due to a decline in international competitiveness are likely to be greater than any that result from technological change, and that such change is essential to the preservation and expansion of U.S. employment and wages.

The book contributes a significant array of policy options and recommendations in three areas: public policies to assist worker adjustment to technological change; public policies to support the development and application of advanced technologies; and improvements in private sector managerial expertise in evaluating and implementing new technologies.

With respect to worker adjustment, the recommendations deal mainly with changes in Title III of JTPA, particularly to broaden the range of employment services, including job counseling, skills diagnosis, job search assistance, and placement services. There is strong support for increasing funds for basic and job-related skills, and for expanding income support during retraining. Instituting a program of federally-provided direct loans and loan guarantees administered by states or local areas is felt to be a critical resource for retraining or relocation. Also recommended is a series of demonstration projects to test program designs, which are rigorously evaluated.

Innovation and the Productivity Crisis

This Brookings book is one in a series of publications on productivity issues. Funded in part by the National Science Foundation, it suggests that the slow pace of innovation may be influential in slowing productivity growth. Unlike some other economists, the authors propose that the size of the collapse of productivity growth in the U.S. should define this as a national crisis. They claim that had the growth in output per hour after 1965 equaled the average rate from 1870 to 1965, output would have been more than 20% higher in 1985 than it actually was. Unless there is an increase in productivity growth, they say, Americans will suffer stagnant or falling living standards.

In addition to labor productivity, two other indices of production performance are given attention: output per unit of capital used, and multi-factor production. The owners of capital did poorly after 1965. And the collapse of multi-factor productivity growth, in the aggregate, has been startling, with no clear message that it will increase. The authors place this in context by referring to the data on other industrialized countries, which reveal a similar and sometimes more severe slowdown.

Although the authors focus on the role of innovation, they find that inflation, recessions, oil price fluctuations, and other economic interferences in the 1970s also affected economic performance. They suggest that there are two kinds of strategies for utilizing technology for economic growth: one expands the technological frontier, developing leading-edge industries (characteristic of the U.S.); the other diffuses technology that has already been developed (as in Europe). The Japanese are now using both strategies.

Referring to an OECD study, however, the authors propose that diffusing and refining already-developed technology is the key to high productivity growth. They therefore argue for continued support of basic science, for "middle-ground" and commercial research, and an improved educational system that appreciates the knowledge and skills required for technological innovation. There are important messages here for workforce development.

Technology and Global Industry

Brooks and Guile begin the book by identifying two characteristics of global economic change: 1) the U.S. no longer dominates world economic affairs but rather is only one element, even though significant, is an increasingly global economy, and 2) the growth of other national economies has permitted production and distribution to become increasingly transnational. Technological advances have played an important role in emerging economic and technological integration, increasing the capacity of transnational systems that carry information, goods and people.

Focusing on the activities of multinational companies and the policies of industrialized nations, the book seeks to answer these questions:

- What are the effects of changing technologies on the production and distribution of goods and services in the global economy?
- How do technological advances contribute to shifts in the relative competitive advantage of nations, regions and firms?
- How do governments and enterprises respond to the dynamics of technological advance in a global economy?
- What are the likely consequences of their efforts?

Although the book directs our attention to the management side of economic issues, there are keen insights to be culled for workforce preparation and dislocation between the lines.

Worker Dislocation: A Review Article

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"You should learn a trade. They can never take that away from you."

— *Anonymous factory worker, in advice to his son.*

As the above quote suggests, working men and women are in fear of losing their jobs due to economic change, whether it be from technological innovation, foreign competition, shifts in demand, government regulation, or other sources. There are epic tales of highly skilled workers attempting to outdistance technological change through increased effort and other means, with the demise of the glass bottle blowers at the turn of the century coming to mind most sharply. There are tales of violent resistance—the action of workers themselves creating evocative new words for our language—*sabotage* and *Luddites*. There is the modern image of the "Rust Bowl", characterizing the upper industrial Midwest.

Scientific interest in the impact of economic change on worker displacement began early in this century, followed by seminal articles by Haber (1925) and Myers (1929) in the 1920s. Case study monographs of worker adjustment to plant shutdown began occurring in significant numbers soon after the end of World War II, but systematic empirical research on the problem of worker displacement did not begin until the 1960s in response to waves of restructuring that began in the post World War II era to hit auto manufacturing, meat packing, the railroads, coal mining, and other industries (See Borus, 1964; Schultz and Weber, 1966; Somers, 1968). Even then, the issues were not fully understood, whether one was concerned with the measurement of the displacement loss to the individual and society; the time and money costs of finding new employment; issues of social compensation to losers from change; whom to train in new skills, how to train them, and what skills to train; or, how to provide reliable data to inform social policy on any of these issues.

The three volumes discussed in this essay carefully and thoroughly assemble much of the methods of analysis and knowledge that we possess today concerning the above issues. *The Costs of Worker Dislocation* by Jacobson, LaLonde and Sullivan (1993) provides one of the most conceptually comprehensive and empirically complete studies of the pattern and quantity of wage loss due to economic change and dislocation. Duane Leigh's study, *Assisting Displaced Workers*, is a comprehensive review as of 1989 of the policies designed to ease the burden to workers of economic change and presents the most recent evidence as to their relative effectiveness. *Back to Work*, by Howard Bloom, reports with thorough methodological detail on one of the very few classical random tests of programs designed to aid displaced and disadvantaged workers. These studies progress from the most to the least general, and are discussed in that order.

Reasons for Concern

Policy makers and analysts are interested in who gets damaged by economic change, what the time pattern of economic loss is, and what the total present value of that loss is. A key reason for this interest is to determine whether to intervene in the economy and assist the dislocated. The decision to intervene is in part a function of the total earnings lost per dislocated worker and the distribution of that loss across groups in the labor force. Second, if society wishes to compensate the losers to any economic change, it needs to know who the losers are and how much they have lost.

After extensive Congressional hearings in the late 1950s, the Area Redevelopment Act of 1959 became the first national legislation to provide for intervention in the worker readjustment process. This legislation focused on policies to aid in the economic adjustment process. No direct cash compensation for loss of human capital was contemplated. The first effort at direct cash compensation for displacement came with the trade adjustment assistance program in the Trade Expansion Act of 1962. Compensation was to be paid to those workers damaged by liberalized international trade. The intent was, in part, to reduce political resistance to reduction in trade restrictions; however, the program concept had strong theoretical support in the compensation principle of theoretical welfare economics. Trade adjustment assistance has gone through several modifications—first by simplifying eligibility for compensation in 1974 and then having eligibility and payments tightened up in 1981.

As pointed out by Leigh, a major problem with this legislation is the difficulty of identifying who the losers are from liberalized international trade (or any other structural change to the economy) and how much they lose. Current policy is now summarized in the Economic Dislocation and Worker Adjustment Assistance Act of 1988 (Leigh, pp. 93-94). This latest revision was motivated by evidence that *prime age males* were having difficulty adjusting to economic dislocation (Jacobson et al.). During fiscal year 1991 the federal government spent nearly one billion dollars to help displaced workers under this act.

Yet, to anticipate what is to come, very little is known about the broad outcomes of various forms of labor market interventions to aid displaced workers other than *job search assistance*. As Leigh's thorough review of the literature shows, even less is known about the fine detail of optimal program design for different types and mixes of treatments relative to their target populations. It is difficult to comprehend this long-standing tolerance of partial knowledge and outright ignorance of these policy outcomes. Yet, such tolerance exists, even with recent cash flows to the program of one billion dollars a year and historical expenditures since 1959 that exceed many tens of billions in current dollars!

The Dimension of the Problem

Perhaps part of the historical reason for this tolerance has been our failure until recently to comprehend the full dimension of the problem. The studies by Leigh and Jacobson et al. indicate that the numbers affected are large and the losses per worker are severe. Working with different data sets and slightly different assumptions, both Leigh and Jacobson et al. estimate similar annual totals of workers hit by dislocation. A key assumption in such estimates is to specify a minimum length of employment in a firm in order for a laid off worker to be counted as a dislocated worker. For one estimate, Leigh sets a minimum of at least five years of employment at a firm prior to dislocation. This assumption yields a total for displaced workers of 3.2 million a year over the time period 1979 to 1984. For the period 1980 to 1986, assuming a six year minimum job tenure, the estimate of Jacobson et al. is 2.6 million. Taking the midpoint of this range gives an estimate of approximately two per cent of the economy's labor force each year—more than 20% in ten years—damaged by dislocation.

Leigh's estimate is that the typical displaced worker loses about 20% of his or her pre-displacement wages. More conceptually sophisticated analysis using longitudinal data that incorporates a comparison group suggests that the initial annual loss is closer to 40% (Jacobson et al.). Moreover, the average total present value of losses amounts to about $80,000. This is a private loss to the individual but it is also a real loss of economic welfare to society as well. As Jacobson et al. point out *"displacement is a major setback for experienced workers."*

Using the Jacobson et al. estimates, the total annual cost of displacement to society is a present value of $208 billion (2.6 million workers a year times $80,000 per worker). What if these estimates are four times too large? The loss is still $52 billion a year! Hopefully, the economic changes that cause this dislocation provide society as a whole with benefits that equal or exceed the losses. However, ignoring Food Stamps and other transfer payments, the direct compensation that is paid by society's beneficiaries to this change is only about a billion dollars a year, as noted above.

Why Such Losses Occur

The above estimates are large and dramatic. What is their source? Conceptually, does the total sum represent a potentially compensable loss? Jacobson et al. draw a careful taxonomy of the source of these losses. Wage premia can derive from the following sources or combination of sources:

1. Some workers gain wage premia due to a collective bargaining agreement.
2. Some workers may have firm-, industry-, or occupation-specific human capital.
3. Some firms may offer higher wages and be able to select higher productivity workers as a result in certain situations.
4. Some firms and certain sectors of the labor market employ promotion practices that preclude lateral entry.

Leigh suggests that wage premia due to collective bargaining agreements may not represent a component that justifies compensation. However, there is evidence that unionized workers work more intensely and are more productive than similar non-unionized workers and that, in response to higher unit wage costs, firms will also select more productive workers as a result. To the extent that this is true, then union wage premia lost due to dislocation are compensable. Real productivity has been destroyed, not just union-induced wage rents. In sum, if any of the four conditions are negatively affected due to displacement, both short term and long term losses can result.

Policies to Mitigate Earnings Loss

With the possible exception of some of the wage premiums due to unionization, unanticipated[1] economic dislocation that reduces or eliminates any of the four sources of wage premia above result in a loss of human capital or situational productivity. This in turn is translated into a loss of earnings power. These losses of productive capacity can be seen as property right losses, and, hence, compensation is justified (some would say *required*) on the grounds that no one be made worse off by a given economic change and at least one person be made better off. The point is that for society to benefit, there must be a net gain after all compensation for costs is accomplished.

Leigh presents a complete taxonomy and critique of the policies that are intended to replace lost earnings power due to dislocation. He makes the point that while the most widely publicized group of displaced workers come from unionized, high wage jobs in the manufacturing sector, in fact displaced workers overall are a very diverse group, differing by gender, ethnic origin, industry, occupation and labor market location. These characteristics imply different types and mixes of policies for each subgroup of displaced worker (Leigh).

While he focuses on program policies that have been implemented and evaluated in the several states, the following program policies represent the full range of alternatives in today's policy toolkit:

1. Formal classroom occupational training, with remedial or adult basic education where also needed.
2. On-the-job training, with direct or indirect wage subsidies, including vouchers, to encourage firms to hire displaced workers.
3. Job search assistance programs, including the components of: outreach; orientation; assessment and testing; job search work shops; counseling; and job development and job matching.
4. Advance notice and on site delivery of services.
5. Economic alternatives to plant shutdowns, including: subsidies of various kinds to employers; assistance to enable employee buyouts of firms; and subsidies to workers to start up their own enterprises.

The first four policies are intended to aid the transition of dislocated workers to new jobs and replace lost human capital. The final group of policies represent efforts at direct job creation. The evidence as to the relative effectiveness of each of these policy choices is limited to say the least; however, there is better evidence on some initiatives than on others.

Occupational Training

Occupational training programs provided at the state level include a variety of innovative components, including vouchers; active participation of employers to design training, choose trainees, and hire the trained workers; performance-based contracts; and the diversion of unemployment insurance funds to pay for training. Leigh points out that the net impacts of these programs largely have to be inferred from evidence based on evaluation of federal programs since the state initiatives generally have not built in evaluation components that incorporate comparison groups. An exception to this is the Texas initiatives discussed by Bloom.

There is now evidence with strong internal validity based on the *National JTPA Evaluation* conducted by Abt Associates Inc. in cooperation with the Manpower Development Research Corporation that retraining has a positive return for adult men and adult women. Sixteen Service Delivery Area (SDA) sites were judgmentally chosen with random assignment to treatment and control within each site. As with the sites evaluated by Bloom, adult women fared better than men. Other, non-experimental evaluations of training reported by Leigh, such as the Downriver Community Conference Economic Readjustment Program, are too methodologically flawed to allow any definitive judgment as to program outcomes (Leigh).

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[1] There is a strong theoretical argument that only displacement losses due to *unanticipated* economic change be compensated. One can argue that where change is predictable the market will provide a compensating wage differential in the form of a wage premium to balance out the expected capital loss. See Hamermesh, Cordes and Goldfarb, 1987.

Bloom's (1990) evaluation of three Texas sites providing reemployment services for displaced and disadvantaged workers demonstrates conclusively that with the appropriate political will and careful attention to experimental design and execution of that design in an on-going program, it is possible to properly evaluate such initiatives. His exhaustive account and record of design, program and evaluation management, and analysis provide a blueprint for federal and state legislators who wish to discover whether public investments of this type are effective. We agree with his statement that the Texas evaluation "...demonstrated the feasibility of conducting a high-quality, randomized field experiment at several sites simultaneously, within a modest budget and limited time frame" (Bloom).

Of course, the problem at the federal level is not one of inducing an individual program site to agree to an experimental evaluation. The *National JTPA Evaluation* has demonstrated this. The problem at the federal level is to marshall the political focus and energy to bring about *nationally representative experimental evaluations* within the context of on-going programs. Given the billions of dollars that have been spent delivering subsidized employment and training programs since the Area Redevelopment Act was initiated 36 years ago, it is not unreasonable to expect such an initiative.

Job Search Assistance

As Leigh carefully points out, it is difficult to identify initially which workers laid off due to economic change have suffered losses of human capital. This being the case, it is reasonable to stage the process of providing reemployment services in order to gain the most effective use of social resources. The notion is to present all workers with *job search assistance* first, withholding initially any wage subsidy, training voucher or other training services. Workers with fewer disabilities due to the dislocation will be able to find jobs first. This strategy was followed in the *Downriver* project mentioned above and positive returns to job placement services were identified, within the (severe) methodological limitations of that analysis. Leigh reports that in general job search assistance services appear to pay off socially.

Related to job search assistance is the *reemployment bonus initiative* wherein a cash bonus is paid to workers to induce them to search more diligently for work. Experimental results for Illinois suggest such a policy does work, but non-experimental results in New Jersey suggest otherwise. The weight of the evidence should go to the experimental results, at this time, conditional on new evidence developing.

Advance Notice

Early intervention in the job relocation process makes intuitive sense. Workers are helped thereby to maintain their self-esteem and job search energies, and firms can be induced to cooperate in any job development and retraining efforts more effectively. These concepts are incorporated in the Worker Adjustment and Retraining Notification Act of 1988. Leigh points out that early notice does appear to reduce the private costs of adjustment to workers, largely due to the fact that some workers quit before the plant closing as a result of locating a new job prior to severance from the threatened job.

However, it is possible that advance notice can disrupt the production efficiency of a firm in a variety of ways, so that gains to workers are then offset by losses to stockholders. Plausible arguments in the evaluation literature exist as to both positive and negative effects on worker productivity and firm costs due to advance notice. However, the weight of evidence suggests gains to workers and no necessary costs to employers. Thus, *advance notice* appears to be a useful social policy.

Job Preservation through Subsidies and Employee Buyouts

How appropriate are policy interventions designed to keep threatened firms operating? Leigh discusses three alternatives:

1. "Assistance to allow current owners to keep operating or to attract new owners from outside the firm.
2. Assistance to encourage employee buyouts of existing facilities.
3. Assistance to enable displaced workers to start up their own small businesses."

Evidence on all these initiatives is limited to a few qualitative studies. The *first* initiative is generally subsumed under programs to establish "enterprise zones." The notion is to stimulate economic development by reducing government regulation and lowering taxes in the zones. The apparent reality of state enterprise zones, though, is that total but not marginal tax rates are reduced, and the apparent benefits of increased government activity within the zones are reduced by the cost of complying to regulations in order to receive any assistance.

The *second* strategy relies for its efficacy on the increased productivity induced in workers who now own the firm. For a variety of reasons, such a consistent successful result has yet to be established in practice. And, there is the further downside that the workers typically have taken their diverse portfolio of retirement investments and converted its capital value to a single egg in a single basket—their threatened firm. Such an action simply is not prudent, especially if the original owners are not willing to maintain a significant stake in the firm.

The *third* strategy has several problems with it. First, if the new businesses would have started up anyway, which has to be a possibility, those receiving the subsidy get a windfall gain.

No net social benefit results. Second, since such a start-up firm would be subsidized, it would have lower costs and could conceivably displace an existing, otherwise efficient, firm or firms.

As to the third point, few additional jobs may be generated and, indeed, inducing inexperienced individuals to attempt to be entrepreneurs may just exacerbate failure.

An Overall Judgment

Convincing and detailed evidence now exists on the extent and severity of earnings loss due to economic changes of all types. The social costs are very large indeed and warrant a systematic development and valid testing of policies to deal with the problem.

The survey by Leigh reveals a very rich and diverse set of policy options, only the highlights of which are presented in this survey. But the fact is that but for a few of the policies, we know little of their efficacy. *Job search assistance should be the core readjustment policy.* It is relatively low cost and avoids the problem of having to distinguish truly displaced workers from those unemployed due to seasonal, cyclical or short term frictional causes. The role of *retraining* is less clear. It seems clear that employers in local labor markets must be involved in the training process. Training should be offered only for well specified needs and in the types and quantities of workers needed. Apparently, more remedial education should be offered, yet states have slighted this initiative in favor of economic development activities. Finally, there simply is not enough evidence at this time to offer such subsidies to firms in an effort to maintain or increase jobs. And workers who can succeed in difficult entrepreneurial endeavors are least likely to need the services tendered to truly dislocated workers.

As a concluding point, given the very large real losses to workers as well as the large amount of public resources devoted to assisting these workers, it is reasonable to expect more systematic evaluation of program effects, which includes more use of experimental design, but at the very least, the use of state-of-the-art quasi-experimental design.

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National Studies of Dislocated Worker Programs

Editorial Introduction

In a comprehensive paper on dislocation by Robert W. Bednarzik, a senior economist at the U.S. Department of Labor, and Malcom Lovell, Director of the Labor Management Institute at George Washington University, the authors discuss the problem of dislocation and its major causes, and review national projects seeking to reduce this emerging characteristic of postindustrial societies.

Written for the *Competitiveness Policy Council* in 1992, the paper provides an excellent summary of expert opinion and research regarding dislocation issues in the 1980s, and the programs developed to address those issues in the U.S. and Europe. The authors place retraining and reemployment strategies in the context of the need to make substantial improvements in the quality of the American workforce to remain internationally competitive.

They locate the beginning of adjustment assistance programs in the area of public transportation. The government had concluded in the aftermath of consolidating certain transportation systems that workers losing jobs in the public sector should be compensated by receiving assistance in finding new ones. Similarly, changes causing job loss in the area of trade were followed by the Trade Adjustment Assistance program (TAA).

The surge in unemployment in the early 1980s related to unprecedented numbers of plant closures and mass layoffs increased concern about dislocation. In 1982, Title III of JTPA responded to that concern. And states began to finance their own retraining programs for dislocated workers. Title III was followed by the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA), which was to increase the E&T system's provision of assistance to the dislocated.

There was reason to worry about dislocation, the authors contend. From 1985 to 1989, 4.3 million workers had become dislocated. Most were in manufacturing, but dislocation was spilling over into the service sector. EDWAA and TAA were serving about 150,000 dislocated workers a year out of over 800,000. In 1986, the Secretary of Labor's Task Force on Worker Dislocation took a serious look at the problem again, as well as the programs developed to resolve it. Not surprisingly, they found that the workers at highest risk of dislocation were those in high risk industries — operators, fabricators and laborers in mining, construction and manufacturing. Minorities and youth were at particular risk, Bednarzik and Lovell point out, because of their concentration in import-sensitive industries. These workers experienced severe structural barriers to reemployment.

Later in the 1980s we began to see middle managers and other white collar workers in the ranks of the dislocated. Public policymakers began to ask themselves if EDWAA and TAA were adequate, sufficient responses.

The authors discuss a variety of programs and pilot projects spawned by anxiety over increasing dislocation. Five demonstration projects had been undertaken under Title III over an eight-year period beginning in 1980. All were evaluated. Bednarzik and Lovell's summary of the results for OJT and classroom training in the five projects shows a mixture of success and failure for the same interventions in different projects. A consistent finding, however, was that training, per se, did improve the earnings of dislocated workers over time, and job search assistance seemed to improve both employment and earnings.

A study of ten exemplary dislocated worker projects under Title III provided important insights about service strategies and service delivery processes, to which the authors give appropriate attention. But by 1989 EDWAA had replaced Title III, emphasizing "rapid response," labor-management cooperation, a more powerful role for substate areas, linkages with UI, the Employment Service and TAA, and longer-term retraining. There the paper ends, and our series of articles on national evaluations begins. The well-conceived and implemented studies reviewed in these articles tell us much about an ongoing national dislocated worker program, EDWAA, about EDWAA demonstration projects, and about DOL studies of self-employment.

Evaluating Dislocated Worker Programs: U.S. Department of Labor Studies in the 1990s

In the 1990s, the issue of worker displacement and dislocation became a more serious concern, growing more problematic with increasing economic competition and risk. Title III of JTPA was created to respond to this fluorescing phenomenon in postindustrial life.

JTPA was accompanied by formal government interest in performance management and evaluation, likely related in part to the decentralization and privatization of employment and training programs to states and local areas. Among other purposes, federal monitoring and evaluation guidelines and standards were to compensate for this devolution of power by maintaining quality, consistency and equity. They were to assure that a transfer of authority and administration to states would not result in a redirection of programs toward state-specific agendas and away from Congressional intent.

One result was the conducting of some of the most sophisticated and scientifically viable evaluations of ongoing and demonstration programs in the employment and training field that had ever been undertaken. Most of the programs and projects evaluated have focused on the economically disadvantaged. However, in the 1990s the U.S. Department of Labor (DOL) launched a number of evaluations of Title III programs and demonstrations, as well as pilot tests of new strategies addressing dislocation.

Historically, dislocated workers were a new target group for services, encompassing workers of all socio-economic levels who were experiencing permanent job loss in the occupations, industries and businesses that had sustained them over time. Employment and training policymakers, planners and program designers faced a new challenge. And evaluations now began to investigate the nature and effects of programs responsive to the middle class.

The Status of Evaluation Research

This article briefly reviews a subset of the DOL-funded evaluations of programs for dislocated workers. The 1990s witnessed increased government commitment to the use of experimental research designs for estimating the effectiveness (return on investment) of ongoing programs and demonstration projects. At the same time there was new support for learning more about the influence of organizational structures, functions and processes in programs, and service delivery characteristics, on the outcomes of these programs — that is, a growing interest in process evaluations, or studies of program implementation.

Where possible, the DOL encouraged a "methodological partnership" between process and net impact evaluations when studying programs, which permitted evaluators to offer better explanations of the potential causes of program outcomes. The process and net impact evaluations of the WA State SEED program are an example, as are the twin process/net impact evaluations of the Trade Adjustment Assistance program. In other cases, process evaluations preceded potential outcome studies, or were considered most appropriate when the focus was mainly on implementation issues.

Figure 1 provides a quick overview of the kinds of evaluations conducted by DOL on dislocated worker programs, the major reseach questions for which answers were sought, and the methodologies used.

The Results of the Studies

DOL's process studies emphasized similar aspects of programs: their organizational dimensions and their service delivery systems. All but one of the outcome studies utilized either random assignment to produce equivalent treated and control groups, or a constructed comparison group of individuals considered similar to those receiving program services.

There is no question that *measurement* is a special challenge in process studies. Many of the variables describing program implementation that are likely to exert the greatest influence on program outcomes are difficult to measure. The variability in these measures across process evaluations reduces one's ability to compare studies.

The measurement of *outcomes* has been limited traditionally to a small set of easily quantifiable employment and earnings variables, to which measures have been added to provide information on interim outcomes such as the completion of educational and skill competencies, and longer-term outcomes such as job retention.

However, even these standard outcome variables are not always defined identically. And less tangible and more inclusive sets of outcomes for individuals, such as an increase in work motivation and productivity, greater self-esteem in the workplace, or less stress in one's family life, are rarely given attention, even though these outcomes may be highly significant.

Conceptualization differences also reduce the comparability of evaluations, even though studies may be focused on similar issues and target groups. The underlying assumptions evaluators make in defining and framing the research, and the paradigms (propositions) that flow from these assumptions subtly influence the construction of research questions.

These caveats should be kept in mind when looking across the conclusions and recommendations of evaluators regarding these programs for dislocated workers.

The Evaluation of the Trade Adjustment Assistance Program (TAA)

Although our concern about the dislocated in the 1990s has been more dramatic than in earlier periods, the federal government has been sensitive to displacement due to trade conditions as early as the 1930s. The Trade Expansion Act of 1962 began the recent history of compensating workers for trade-induced job loss thorough "trade adjustment assistance." Although the TAA program put in motion by this legislation was reduced drastically in the 1980s, legislation in 1986 reemphasized adjustment services, 1988 legislation expanded the use of training to speed readjustment, and reemployment services were subsequently given more attention. With the advent of EDWAA in 1988, coordination between TAA and the new program was mandated. This linked TAA with a more disciplined and sophisticated service delivery system. Clearly the legislative evolution of TAA reflected the growth in the population of dislocated workers in this society.

The Process Evaluation of TAA

The purpose of the evaluation was to learn more about 1) the certification, notification and application processes, and 2) the delivery of reemployment services. Conclusions and recommendations are presented in Figure 2.

The Evaluations of the Implementation of EDWAA

The design of EDWAA programs was dependent largely on the planning preferences and expertise of the states. Consequently it was important for DOL to know, from a public policy standpoint, what designs seemed most appropriate to the needs of dislocated workers and what configurations appeared to produce the outcomes intended by the Congress. Conclusions from the EDWAA evaluation are presented in Figure 3 and recommendations are presented in Figure 4.

The Phase II report on EDWAA implementation was reviewed in an earlier issue of *Evaluation Forum* and so is not given detailed attention in this article. The methodology of the evaluation is quite unique. The research was guided by an innovative, thoughtful and useful model describing the elements of "a responsive service delivery system" for dislocated workers. Information

Figure 1 ▪ An Overview of DOL Evaluations

Benus, Jacob and Rhonda Symes

The St. Louis Metropolitan Re-Employment Project: An Impact Evaluation. Research and Evaluation Report Series, Employment and Training Administration, 1993.

Type / Design	Main Research Questions	Methods
Net impact evaluation / quasi-experimental design	What are the net impacts of the services received by participants on their earnings, receipt of UI, and their reemployment over time?	*Data Collection* ▪ UI wage record data ▪ Telephone interviews ▪ Program records *Data Analysis* ▪ Treated group was compared with randomly-selected sample of St. Louis residents filing for UI.

Corson, Walter, Phillip Gleason, and Johanna Patch

Evaluation of the Trade Adjustment Assistance Program: Process Report. Office of Strategic Planning and Policy Development, Employment and Training Administration, 1992.

Type / Design	Main Research Questions	Methods
Process evaluation / Descriptive design	▪ What is the nature of services provided? ▪ To what extent did 1988 amendments improve program? ▪ What were "best practices" in terms of service delivery? ▪ How does TAA interact with other dislocated worker programs?	*Data Collection* ▪ Aggregate quarterly quantitative data on payment and service activity under each petition. ▪ Unstructured on-site interviews with central office staff and some local staff. ▪ Participant survey. *Data Analysis* ▪ Comparison of delivery of services over time, among states, by petitions.

Corson, Walter, Paul Decker, Phillip Gleason, and Walter Nicholson

International Trade and Worker Dislocation: Evaluation of the Trade Adjustment Assistance Program. Office of Strategic Planning and Policy Development, Employment and Training Administration, 1993.

Type / Design	Main Research Questions	Methods
Net impact evaluation / quasi-experimental design	▪ What are the differences in the characteristics of TAA caseloads and other dislocated workers? ▪ What kinds of services were provided by comparison with participants in other programs? ▪ What effect did TAA services have on the reemployment experiences of TAA participants, as compared with other dislocated workers? ▪ What effects did the 1988 amendments and changes in Title III have on TAA?	*Data Collection* ▪ Participant survey ▪ Telephone interviews with random sample of recipients ▪ Labor market data *Data Analysis* ▪ Comparison of client characteristics, services received, and client outcomes for TAA treatment group with matched comparison group of UI claimants.

Figure 1 continues

Figure 1 ▪ Continued

Dickinson, Katherine, Deborah Kogan, Kevin Rogers, and Mary Visher

Study of the Implementation of the Economic Dislocation and Worker Adjustment Assistance Act. Research and Evaluation Report Series, Employment and Training Administration, 1992.

Type / Design	Main Research Questions	Methods
Process evaluation/ descriptive design	▪ What is the nature of EDWAA policies and organizational practices? ▪ What are the operational links between 1) state and substate functions and 2) design and delivery of services?	*Data Collection* ▪ Telephone interviews ▪ Site visits: discussions and interviews with state, substate, and service providers *Data Analysis* ▪ Cross-site analysis of qualitative and quantitative data from program MIS and other sources.

Dickinson, Katherine, Deborah Kogan, Kevin Rogers, and David Drury

Study of the Implementation of the Economic Dislocation and Worker Adjustment Assistance Act: Phase II, Responsiveness of Services. Research and Evaluation Report Series, Employment and Training Administration, 1993.

Type / Design	Main Research Questions	Methods
Process evaluation / descriptive design	▪ What types of services are provided? ▪ To what extent do these services respond to clients' needs? ▪ What are "best practices" regarding program designs and service practices? ▪ What problems are occurring re: service delivery policies and practices?	*Data Collection* ▪ Site visits. ▪ Discussion with state-level staff. ▪ Interviews with substate staff. ▪ On-site observation by evaluation team. ▪ Discussion with participants. ▪ Review of client files. *Data Analysis* ▪ Comparison of collected information with an evaluator-constructed ideal-type "Conceptual Model of Responsive Dislocated Worker Services" to judge extent to which programs fit this model.

Dickinson, Katherine, Suzanne Kreutzer, Deborah Kogan, and Richard West

Study of the Implementation of EDWAA: Report on the Survey of Substate Areas. Research and Evaluation Report Series, Employment and Training Administration, 1993.

Type / Design	Main Research Questions	Methods
Process evaluation/ descriptive design	▪ What is the nature of the organization and operation re: EDWAA services such as type of clients targeted, characteristics of services provided and their possible effects on outcomes? ▪ What is the orientation of programs and extent to which they are consistent with the themes of their legislation, and what is the possible effect on outcomes? ▪ To what extent is EDWAA coordinated with Title IIA of JTPA, with what effects? ▪ What is the probable effect on outcomes of the level of responsiveness to client needs?	*Data Collection* ▪ Worker Adjustment Annual Program Report: for types of clients served, recency of layoff, educational level, previous wage level, barriers to employment, program outcomes. ▪ Survey data. ▪ Review of state plans. ▪ Labor market information. *Data Analysis* ▪ Survey results and other data were analyzed against the conceptual framework of propositions regarding ways substate areas organized their programs, the types of clients served, the types of responsiveness to needs, and the outcomes achieved, using statistical methods.

Figure 1 ▪ Continued

Drury, David, Stephen Walsh, and Marlene Strong

Evaluation of the EDWAA Job Creation Demonstration. Research and Evaluation Report Series, Employment and Training Administration, 1994.

Type / Design	Main Research Questions	Methods
Process evaluation / descriptive design	How effective are Community Development Corporations in expanding employment opportunities for dislocated workers through linkages between entrepreneurial training and other economic development activities?	*Data Collection* ▪ Site visits. ▪ Interviews with staff from 11 substate programs in eight states. ▪ Interviews with state-level EDWAA staff in five states. ▪ Conferences. ▪ Telephone interviews. *Data Analysis* ▪ Analysis of an array of quantitative and qualitative information.

Visher, Mary, Stephen Walsh, and Ronald D'Amico

Serving Dislocated Farmers: An Evaluation of the EDWAA Farmers and Ranchers Demonstrations. Research and Evaluation Report Series, Employment and Training Administration, 1994.

Type / Design	Main Research Questions	Methods
Process/outcome evaluation, descriptive design	▪ How effective are the service categories used in the demonstration?	*Data Collection* ▪ DOL WAPR data. ▪ On-site interviews and discussions. *Data Analysis* ▪ Services received compared with those received by other EDWAA participants. ▪ Relationship analyzed between services and participants' short- and long-term outcomes.

Wandner, Stephen (ed.).

Self-Employment Programs for Unemployed Workers. Parts 1-4. Unemployment Insurance Occasional Papers, Employment and Training Administration, 1992.*

Type / Design	Main Research Questions	Methods
Process evaluation/ descriptive design	▪ How viable is self-employment as reemployment option for the unemployed? ▪ What is the relationship between 1) early provision of business assistance services and self-employment allowances to UI claimants, and 2) successful outcomes in self-employment?	*Data Collection* ▪ Quantitative data on clients and services via DOL's Participant Tracking System. ▪ On-site discussions and interviews with SEED personnel using standard protocols, via monitoring visits. ▪ On-site group interviews with SEED participants. ▪ On-site observation by evaluation team. *Data Analysis* ▪ Cross-site analysis of quantitative/qualitative data on organizational arrangements, service delivery.
Net impact evaluation/experimental design; cost/benefit study	▪ How effective are SEED services in terms of self-employment and earnings?	*Data Collection* ▪ UI wage records; telephone survey. *Data Analysis* ▪ The self-employment and earnings outcomes of SEED participants (offered business start-up training, a waiver of the UI work requirements, and periodic payments equal to UI benefits) were compared with a control group that received only UI payments and services.

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*1, *From Unemployed to Self-Employed* , Stephen Wandner and Jon Messenger; 2, *Washington Self-Employment Enterprise Development (SEED) Demonstration*, Terry Johnson and Janice Leonard; 3, *Massachusetts Unemployment Insurance Self-Employment Demonstration*, Jacob Benus, Michelle Wood, Chris Napierala, and Terry Johnson; 4, *Self-Employment Programs for the Unemployed: An Analysis of Program Evaluation and Operations Research in Europe and North America*, Douglas Scott.

about EDWAA implementation was then judged against this model. The major conclusion was that there was substantial variation across the study sites in the level of responsiveness of EDWAA to the needs of this target group. Areas experiencing high levels of dislocation, and special projects tended to be the most responsive.

The third report in the series on EDWAA was based on a survey of substate areas delivering EDWAA services. It addresses both process and outcome issues. The results regarding service integration were particularly useful. Those substate areas with the greatest integration of services with JTPA IIA tended to have these characteristics:

- They served workers whose profiles were similar to the economically disadvantaged.
- They utilized OJT as the primary training option, but provided less responsive services.
- They provided weaker early intervention services.

At this stage in EDWAA evolution, incentive/sanction systems were in place in several states, and the evaluation indicated that performance incentives appeared to increase substate efforts to obtain positive outcomes. Also, eight of the study states provided financial incentives for providing long-term training, which had the effect of increasing the intensity of that training. The main recommendations based on the survey focused on developing responsive services, organizing services more effectively, and improving state policies. These recommendations mirrored many of those summarized in the review here of the first study.

Evaluation of the EDWAA Farmers and Ranchers Demonstration

A major demonstration project focusing on rural dislocation, this pilot project involved four states. The evaluation was based on intensive site visits and produced insightful case studies.

The demonstration was critical in that little has been known about the

Figure 2 • TAA Evaluation Conclusions and Recommendations

Issue Area
Certification of groups of workers and notification of workers about TAA

Conclusions
Most workers in certified groups did receive notices about TAA but states lacked a systematic approach to identifying and notifying potentially eligible workers.

Recommendations
- States should obtain lists and contact workers who are laid off following certification, and ask firms to notify state agencies of subsequent layoffs, following up with employers to assure that this occurs.
- States should use UI wage record and other data as a basis for identifying potential eligibles.
- States should disseminate information about TAA through brochures and the media.

Issue Area
Application to TAA

Conclusions
Just as certification and notification were occurring earlier in workers' spells of unemployment, so the application process had been moved forward.

Recommendations
- Group orientations to TAA would strengthen movement toward the use of TAA services.

Issue Area
Delivery of Reemployment Services

Conclusions
Substantial numbers of TAA clients received long-term occupational training at a variety of public/private institutions. Nearly all clients received Employment Service job search services. A small number received payments to finance job search outside local areas, and some received relocation allowances. Clients rarely used available remedial education or OJT.

Some workers strongly resisted receiving training. Staff sometimes lacked a detailed knowledge of labor market conditions and skill needs, and therefore were vulnerable to making inappropriate decisions about training options.

Most states placed little emphasis on post-training placement services. Mandated coordination between TAA and EDWAA was working well although few sites actually integrated service delivery.

Recommendations
- Staff needs to assist workers in viewing reemployment options more realistically.
- Employment Service staff should become more informed about local/regional employment opportunities and appropriate training.
- TAA programs should work more closely with unions.
- States should offer placement services as well as job search services.
- States should consider consolidating TAA and EDWAA.

Figure 3 ▪ EDWAA Evaluation Conclusions

Issue Area ▪ Implementation Problems
Funds were underused given the extent of the needs, and the services were received by only a small proportion of dislocated workers. Job search assistance and short-term training were overemphasized and rapid response capacity was often weak. The requirement for matching funds had unintended effects on the type of services provided and the kind of workers served.

Issue Area ▪ EDWAA Resource Use
Most states selected Service Delivery Areas (SDAs) as the organizations to receive substate EDWAA funds. States lacked adequate data for allocating funds — that is, data on plant closings and mass layoffs, declining industries, and farmer/rancher economic hardship. Only half the states felt resource allocation was consistent with the needs of the dislocated.

Issue Area ▪ Targeting
While most states used inclusive definitions of eligibility, targeting priorities and methods varied considerably across states.

Issue Area ▪ Service Delivery Systems
Most states supported the federal guidelines regarding expenditure of 50% of funds on retraining, but few states encouraged substate areas to request waivers for training or to reward the provision of long-term training.

Issue Area ▪ Local Program Organization and Design
Some local areas partially integrated EDWAA with Title IIA service systems. Half of substate areas had focused on laid-off workers, one-third on the long-term unemployed. The extent of dislocation had directed these priorities. Most substate areas complied with the federal emphasis on retraining; about half (those with high levels of dislocation) had emphasized long-term training.

However, some administrators felt this emphasis denied the importance of basic readjustment services, and led to an overuse of OJT. Over half of the local areas emphasized classroom training; however, about one-third emphasized OJT. Most offered only limited supportive services. Even fewer provided needs-related payments. Most states encouraged participation by labor and management but only a third had created formal labor-management committees.

Issue Area ▪ Coordination with TAA, ES and UI
Most states had nonfinancial agreements with ES and UI, usually negotiated at the local level. Nearly two-thirds of states provided EDWAA 40% funds to ES/UI for rapid response activities.

Issue Area ▪ Coordination with Economic Development
Coordination tended to be limited to information sharing re: potential and actual layoffs. A few states used 40% funds for special coordination activities. Even so, companies' layoff plans were frequently too far in advance of WARN notices to allow for effective layoff prevention efforts.

Economic development funds were sometimes used to retrain workers to stave off layoffs but not to serve already-dislocated workers. Sometimes EDWAA funds were used to support economic development projects.

Issue Area ▪ Coordination with Other Programs
Coordination occurred mainly through joint efforts to deliver services, particularly training. Sometimes EDWAA and federal vocational education funds, or EDWAA and federal financial aid funds were used together. Title IIA programs and EDWAA were frequently co-located administratively. Linkages with other human service agencies were considered weaker, such as with welfare agencies.

Issue Area ▪ Basic Readjustment Services
Pre-layoff services, rapid response and basic readjustment services were often coordinated by a single agency. Some substate areas did not provide basic readjustment services if dislocated workers were not receiving training. Local areas were struggling to develop appropriate assessment strategies for this target group. Only one-third of the substate areas were using a case management system.

Classroom training was often perceived by dislocated workers as offering better reemployment opportunities than OJT. However, classroom training was highly localized and diversified. Community and technical colleges were the most common providers. OJT positions had mixed benefits, sometimes more oriented to economic development goals than to the needs of workers. Few training options involved workplace-based learning.

Issue Area ▪ State Role
The requirement that EDWAA funding be passed through states to substate areas tended to weaken the state's leadership role in setting program parameters and assuring accountability. In retaining 40% funds, however, states fragmented the EDWAA delivery system, leading to policy confusion and a lack of policy coordination.

Issue Area ▪ Program Accountability
Most states did not provide much technical assistance to substate areas. Reviews of reports to determine compliance with regulations focused on procedural rather than programmatic issues. All states had fiscal expenditure reporting systems to insure compliance with federal fiscal rules, but states were not consistent in recapturing funds from delinquent SDAs.

States tended to retain a strong role in designing and administering 40% activities, budgeting for a variety of activities. Over half used these funds to contract for specific services to dislocated workers statewide.

In terms of programmatic accountability, EDWAA performance standards had little meaning, since no incentive or sanction system had been developed by states. Few had even developed criteria for reviewing and approving substate plans.

Figure 4 • EDWAA Evaluation Recommendations

- **Substate capacity building should be supported.**
- **Resource management practices should be improved.**
- **Rapid response must be assured.**
- **Labor and management should join government in the design and implementation of service delivery.**
- **A coordinated use of program and other resources should be encouraged.**
- **The coverage of the program should be extended.**
- **Longer-term retraining and reemployment plans should be included in service options.**
- **EDWAA administrators and service providers should concentrate on the design of rapid response, on realizing the benefits of reduced labor/management tensions, and on improving the range and availability of services that are responsive to dislocated workers' needs.**
- **States need to create a more coordinated statewide program, linking rapid response, recruitment, and early intervention services, and coordinating plant-specific projects with ongoing local service systems to produce a more seamless delivery of services.**
- **States need to improve efforts to identify the needs of dislocated workers and tailor services to those needs, sharing "best practices models" with other states.**

needs of this target group, despite the dramatic decline in American farms over the 1980s. Ten percent of the nation's farms had disappeared within a few years. Historically, urbanization and the consolidation of farming activities had led to a loss of more than four million farms over the past sixty years. But the farm crisis of the 1980s was exceptional in that the movement out of agriculture in this decade was no longer mainly voluntary. This unprecedented dislocation was having severe effects on agriculture-dependent communities. The demonstration was to identify the employment and training needs of this group of workers and determine how best to meet them.

The main findings of the evaluation of the demonstration were these:

- Participants tended to be in severe financial distress despite high levels of education and off-farm jobs.
- Recruitment goals were met despite the reluctance of farmers to participate in employment and training programs.
- Outreach efforts appeared to increase enrollment.
- Over 80% of the participants received retraining.
- The four projects varied greatly in the way funds were used and in the average cost per client.
- Half of all participants were still farming three months after program termination; two-thirds were engaged in off-farm employment, many having had this kind of employment prior to program participation.
- Participation appeared to increase employment rates, hours worked and hourly wages, but only modestly — and there was no evidence that any project was any more effective than another in delivering services or in the outcomes.
- Case management systems seemed well-suited to this group, and retraining appeared to be as appropriate for this group as for other dislocated workers.

Commentary

The evaluations of EDWAA reveal the substantial variation across states and across substate areas in the way national programs may be implemented. Since EDWAA funding policy gave greatest authority and discretion to substate areas, it was more difficult in this program than in other decentralized national E&T programs to respond to national guidelines intended to maintain the program's consistency, comparability and accountability nation-wide. While EDWAA's funding and organizational framework allowed more experimentation, this experimentation did not always translate to progress in dealing with dislocation.

The current renewed interest in federal block grants consolidating federally-sponsored E&T programs, and the accompanying emphasis on states' and local level rights in the human services, has not yet benefited from a serious consideration of consistency, comparability and accountability issues surrounding this proposal. It is possible that in attempting to resolve the issue of duplication and program proliferation in the federal system, we may unwittingly produce a new form of human service system fragmentation at subnational levels. Under the block grant policy suggested as of the writing of this article, states, substate areas and local communities will be encouraged to design and implement their own versions of an E&T system, assisted only by very general federal policy and oversight guidelines. This is likely to result in programs whose operation and results cannot be compared appropriately with those of others, thus denying the Congress the basis for improving national E&T policies.

Meanwhile, there are important lessons from the EDWAA evaluations. We suggest a few:

- Programs focused on dislocated workers must be unusually sophisticated and professional in their recruitment and selection process.
- They should try to intervene prior to or immediately after layoffs.
- They should provide a wide range of income support and service options.
- They should construct individual service plans with clients that are based on competent client profiling, on a thorough knowledge of available education, training and related

services and how to access them, on the most up-to-date and comprehensive labor market information available, on the key results of research on dislocation, and on clients' own strong preferences for assistance.

- They should have vigorous case management systems to provide ongoing support to clients as they take advantage of the program's services and benefits.

These suggestions require a highly trained staff with access to critical databases, service networks, and other sources of information relevant to the functions required of them. They must be able to invest employers and unions in becoming an integral part of the design and implementation of these programs. They need to be generally familiar with the characteristics of evaluation research so that they are competent consumers and contractors of research on their own programs.

With regard to service options in dislocated worker programs, the DOL monograph *A Guide to Well-Developed Services for Dislocated Workers* is a veritable gold mine. This guide was intended for EDWAA practitioners at all levels of government. Information for the guide was obtained from 70 substate areas and 10 special projects in 24 states, and focuses on the design, organization and provision of services to dislocated workers between Program Years 1989 through 1992. The monograph provides detailed information on the following service options:

- Early intervention services.
- Services to help clients develop appropriate reemployment plans.
- Basic readjustment services.
- Retraining services.

Although this extensive guide was designed for program operators, it is an excellent resource for policymakers, planners, oversight personnel, and evaluators.

Other National-Level Studies in the 1980s and Early 1990s Relevant to Dislocation

The problem of dislocation is, historically speaking, a recent one. The increase in international economic competition and rapid changes in technology have led to unprecedented business and industrial restructuring with long-term effects for workers. Literally hundreds of analyses and evaluations related to the issue of worker displacement/dislocation due both to ordinary business cycles and to restructuring have been sponsored over the past decade, testifying to the seriousness and importance of this phenomenon in all postindustrial economies. This article alerts us to a few of these studies and reports.

Selected U.S. General Accounting Office (GAO) Studies

A series of studies relevant to dislocation was commissioned by the U.S. Congress between the late 1980s and the present. Figure 1 provides a brief overview of their purposes and results, and the GAO's main recommendations.

Selected Studies in the 1980s

Stephen Baldwin's report, *Technology and Employment Policy,* commissioned by the *National Commission for Employment Policy* in 1987, was a careful exposé of the effects of technological change on jobs and workers. As a form of structural change, or restructuring, technology effects are manifested, Baldwin demonstrated, in worker displacement, retraining, and organizational changes internal to firms for the purpose of taking better advantage of new markets and production processes. The benefits of technological change, Baldwin pointed out, are not evenly distributed across workers, firms and communities. Therefore a major policy implication of such change is the need for effective training and retraining programs that provide workers with the skills needed to be productive in a dynamic economy pressured by international competition.

The *Office of Technology Assessment* of the U.S. Congress produced a revealing report in 1987 on one of the U.S. Department of Labor's traditional programs for workers dislocated due to trade, *Trade Adjustment Assistance: New Ideas for an Old Program.* Reviewed intensively in an earlier issue of Evaluation Forum, this report provided insights for revising the TAA program that contributed directly to later interest in consolidating TAA and EDWAA. The authors praised TAA's conceptual design for its income-supported long-term training, and EDWAA's administrative flexibility and broader coverage as well as its quicker and more comprehensive service response, and suggested that the best features of the two programs be combined in a new one.

Often overlooked, the report alerted policymakers to another aspect of TAA — it is virtually the sole federal program to provide sustained, intensive technical assistance to small and medium-sized manufacturers. Interestingly, the OTA report viewed the negative results of a previous evaluation of TAA by DOL's Inspector General's Office as a less than fair judgment of its overall effectiveness.

Mathematica Policy Research produced an informative report for the *U.S. Department of Labor* and the *New Jersey Department of Labor* in 1989, *The New Jersey Unemployment Insurance Reemployment Demonstration Project.* This project examined the use of the UI system for identifying displaced workers early in their spell of unemployment, and the provision of early intervention services to speed reemployment. The net effects of three "treatments" were studied: 1) job search assistance only; 2) job search assistance combined with training and relocation assistance; and 3) job search assistance combined with a cash bonus for early reemployment. All three strategies resulted in net benefits to both individuals and the society at large.

Selected Studies in the 1990s

Another useful report by OTA was made available in 1990, *Worker Training: Competing in the New International-*

Figure 1 • Selected GAO Reports

Dislocated Workers: Comparison of Assistance Programs (September 1992)

Purpose and Type of Study
Process study: to obtain information on services provided to dislocated workers by TAA and EDWAA in three states.

Results

- TAA was serving a larger proportion of hard-to-place workers than EDWAA.
- TAA participants received more income support and were more likely to enter long-term training.
- Both programs provided classroom training and OJT, but EDWAA placed more emphasis on OJT.
- Both programs lacked comprehensive information on participant outcomes, but particularly TAA.
- There was only limited coordination between the two programs, partly due to complex TAA regulations.

Major Recommendations

- A better information system for both programs should be developed, to enable policymakers to determine what services are received and what outcomes are achieved.
- TAA and EDWAA should be consolidated and serve all dislocated workers, irrespective of the source of dislocation.
- Income support should be provided with retraining.
- Early intervention is essential.
- A larger menu of assistance options should be available.

Dislocated Workers: Improvements Made in the TAA Certification Process (October 1992)

Purpose and Type of Study
Process study: to explore the implications of the TAA certification (eligibility determination) process in a random sample of petitions.

Results

- Flaws were found in 63% of the petitions filed. Major flaws were:
    - Incompleteness and inaccuracy of data collection from companies.
    - Inadequacy of analyses of trade statistics.
    - Inadequate customer surveys.
    - Variations in volume of petition filings related to level of outreach and assistance provided to workers wishing to file petitions.

Major Recommendations

- Certification process should be made more accurate, and information more adequate for determining eligibility.
- States need to be more responsive to workers filing petitions.
- TAA and EDWAA should be consolidated, and the need for certification eliminated.

Dislocated Workers: Worker Adjustment and Retraining Notification Act (WARN) Not Meeting Its Goals (October, 1992)

Purpose and Type of Study
Process study: to investigate how well the WARN system was working in 11 states.

Results

- While workers were more likely to receive prior notice of closures and layoffs, nearly half of the employers with 100+ workers were not required to give notice.
- Some employers appeared to be confused about WARN provisions, even though DOL brochures and seminars sought to educate them.
- Many employers believed WARN benefited dislocated workers in terms of their reemployment but decreased company productivity.

Major Recommendations

- DOL should be given the responsibility and authority to vigorously enforce the WARN provisions.

Figure 1 continues

Figure 1 • Continued

Dislocated Workers: TAA Program Flawed **(October 1993, Testimony)**

Purpose and Type of Study

Outcome study: testimony summarizing DOL studies, such as Inspector General's and Mathematica's, and their implications for policy.

Results

- TAA was not achieving its key goals:
  - Benefits not equally accessible.
  - Slow program response.
  - Services limited and not well tailored to needs.
  - Not enough counseling.
  - Waiver provision led to only half of TAA recipients receiving training.
  - Limited job placement assistance after training.
  - Inadequate information system for determining performance.
- Separate funding sources have led to separate rules/regulations which act as barriers to quick, equitable, comprehensive service provisions.

Major Recommendations

- Dislocated workers need to be assisted systematically and consistently irrespective of the source of dislocation — i.e., whether dislocated under TAA, EDWAA, Defense Conversion/Diversification, Clean Air, Transition Assistance Program, Demonstration Centers for Retraining Dislocated Workers, etc.
- Programs need to be consolidated.

Dislocated Workers: Reemployment Assistance Program **(November 1993)**

Purpose and Type of Study

Process study: to explore the implications of the new reemployment program initiatives that specifically target dislocated workers (in an amendment to TAA considered a "bridging" program prior to legislation consolidating dislocated worker programs).

Results

- The program had many of TAA's shortcomings.

Major Recommendations

- Processes should be developed that ensure that the certification process is quick and fair.
- Activities in addition to classroom training, such as job search assistance, should be allowable in considering eligibility for income support.

Dislocated Workers: A Look Back at the Redwood Employment Training Programs **(December 1993)**

Purpose and Type of Study

Process/limited outcome study: to learn more about the implementation and outcomes of assistance programs related to the dislocation of timber workers in northern California in the late 1970s.

Results

- Many workers received wage replacement benefits or severance pay, but few received training.
- Service providers were reluctant to develop retraining programs.
- Data on participant outcomes were not adequate enough to determine what happened to workers after receiving services.
- Data on outcomes for communities were not sufficient to sort out the effects of the programs.

Major Recommendations

- Receipt of benefits should be closely tied to participation in training.
- New job opportunities must be created in communities affected by major layoffs, in addition to providing retraining and income support.

Figure 1 continues

Figure 1 ▪ Continued

Dislocated Workers: An Early Look at the NAFTA Transitional Adjustment [illegible]istance Program (November 1994)

Purpose and Type of Study
Process study: to review in four states DOL's effort to make changes in this transitional program (modeled on TAA) to 1) shorten the certification process, 2) include states in that process, 3) broaden eligibility regulations, 4) tie income support more closely with retraining, and 5) eliminate waivers.

Results

- **DOL had successfully addressed a number of shortcomings.**
- **Secondary workers (those indirectly affected by NAFTA) still faced problems in accessing benefits.**
- **Some workers were still receiving incomplete assessments and remedial assistance, and a limited mix of services.**
- **Performance management remained inadequate.**

Major Recommendations

- **More consistent and comprehensive assistance should be assured to all eligible workers.**
- **A better performance monitoring system should be developed for participants' services and outcomes.**

al Economy. Also reviewed in more detail in an earlier issue of the journal, this OTA study examined sixteen options for training policy regarding the needs of the economically disadvantaged, *displaced workers,* workers with special needs, and the general population of employed workers. These options were organized within four issue areas: 1) reducing barriers to company training; 2) upgrading workers' skills; 3) providing training and technology assistance; and 4) enhancing the quality and effectiveness of training. The report thoroughly analyzed these options, referring to policy analyses and research conducted about them, and recommended certain options for policy consideration.

A study conducted in 1993 by the *Congressional Budget Office* examined lessons learned in obtaining information about the actual experiences of dislocated workers. The report, *Displaced Workers: Trends in the 1980s and Implications for the Future,* detailed the number, characteristics and experiences of a large sample of dislocated workers, and the implications of this information for federal policy.

Another study in 1993 that provided insights about dislocation was sponsored by the *American Management Association* (AMA). AMA conducted a survey regarding workforce reductions, producing the *1993 AMA Survey on Downsizing and Assistance to Displaced Workers* for the association's corporate members. The report indicated the following:

- Forty-six percent of the firms surveyed reported downsizing within the past year.
- The cuts made by these firms increased to an average of 10.4% of their workforces.
- Sixty-six percent of the downsizing was due to companies' *concerns* about future business downturns.

For the first time, a majority of the jobs eliminated by firms in the survey involved supervisors, middle managers, professionals and technicians. The number of firms offering outplacement services to dislocated workers was at a seven-year peak. The report confirmed that workforce reductions were occurring more frequently. Fewer than half of the companies downsizing had increased their profits or their worker productivity as a result. The larger companies were more likely to trim jobs than smaller ones, but small businesses cut more deeply when they did downsize. Firms that had downsized since 1989 (70% of the survey sample!) were cautious about hiring new workers and had tended to lengthen hours and/or overtime as an alternative. Fewer than half of all the firms surveyed had increased their workforce since 1988. Although the survey was limited to firms that were members of AMA, the results were particularly useful since the study involved one of the few employer-based surveys conducted in the 1990s.

The importance of an adequate and comprehensive occupational information system was emphasized in David Stevens' 1993 monograph for the *National Occupational Information Coordinating Committee, Occupational Information: The "Blue Highways" of the Labor Market.* The paper pointed to the utility of occupational information in helping users become more discriminating and skillful in selecting and translating published statistics to meet specific policy, planning, management and oversight needs, and in heightening users' sensitivity to workplace changes they can see are occurring but about which they do not yet have confirming statistics.

Some Comments on the Studies

The recommendations in the reports referred to involve something of a consensus on the desirability of: 1) welding income support to longer-term retraining, 2) providing a comprehensive set of service options, 3) consolidating programs so that all dislocated workers are eligible for a unified program, irrespective of the source of their dislocation, and 4) increasing administrative flexibility by removing regulatory barriers to effective program implementation.

■■

Self-Employment as an Employment Strategy for Dislocated Workers

The two major self-employment projects funded by DOL in 1988, and reported on in 1992, in the monograph *Self-Employment Programs for Unemployed Workers,* were targeted to UI claimants on permanent layoff. However, entrepreneurial self-employment strategies had been of major interest in Europe for some time, as an option for coping not only with cyclical unemployment and underemployment but also with dislocation due to restructuring and downsizing of workforces.

The Organization for Economic Cooperation and Development, for example, housed key experts on programs throughout Europe that were utilizing self-employment as an alternative to reemployment. OECD was also interested in the distinctive challenge this option involved for evaluators, sponsoring an international seminar on the evaluation of "Self-Employment and Employment Creation Schemes" in 1989.

The DOL report was very useful in suggesting how experimental evaluations can benefit policymakers and program designers in developing successful self-employment programs. It also made an important contribution to the knowledge base regarding European entrepreneurial initiatives.

Self-Employment Programs in Europe

The DOL monograph distinguises between "microenterprise development," which is used synonymously with "self-employment," and "small business development," which is important to the definition of the enterprise strategy DOL was testing and evaluating. Microenterprises were viewed as sole proprietorships with only one or a few employees. Small businesses were defined by the Small Business Administration as having less than 500 employees. The DOL report reminded us that microenterprises as well as small businesses were growing rapidly. But public policymakers at both the federal and state level had concentrated their attention on small business development as an economic development tool, largely to the neglect of microenterprise development.

Rather than serving economic development needs, self-employment programs in other industrial nations have been designed to expand employment opportunities. By the mid-1980s the seventeen advanced industrial countries who were members of OECD were offering formal self-employment programs for the unemployed. According to the DOL report, by 1987 nearly 20% of new business development in Great Britain was due to self-employment; almost 25% in France.

At the time the DOL report was written two major self- employment models had been developed in Europe:

- The "French Model," involving lump sum self-employment allowancs that were to provide part of the capital needed for a microenterprise.
- The "British Model," involving periodic payments as a form of income support while developing and operating a new microenterprise, such as UI in the U.S.

Although the European effort was not rigorously evaluated, descriptive information was suggesting that self-employment was a significant option for the unemployed and dislocated.

U.S. Approaches

In 1985, DOL became interested in testing new strategies for dislocated workers, and using an experimental research design to evaluate their effectiveness. The major elements of these strategies were: 1) early identification and profiling of dislocated workers using UI data, 2) referral of dislocated workers to providers of reemployment services, and 3) the linking of UI and reemployment services within a single seamless delivery system for these workers. The set of reemployment services of greatest interest were *job search assistance, training, relocation assistance, reemployment bonuses, and self-employment allowances paired with business support services.* New Jersey was selected as the first test site. Later the Department funded two additional UI-related projects testing the use of *reemployment bonuses* as incentives for an early return to work for dislocated workers in Washington State and Pennsylvania. And in the late 1980s DOL funded the St. Louis Metropolitan Reemployment Project, which was evaluated using a quasi-experimental research design.

In 1987, the Department funded a project to test *self-employment strategies.* Washington State was selected as the test site. In the same year, however, the Omnibus Budget Reconciliation Act required the Secretary of Labor to test self-employment programs in a multi-year project involving three states. In this second effort to test self-employment approaches, DOL, the four states, and the research contractor jointly designed the strategy to be tested and the evaluation plan. The design completed in 1989 also drew heavily from insights gained in a study of self-employment projects in Great Britain, France and Sweden, funded by the German Marshall Fund. Concerned about potential costs to states, two of the states withdrew from the project, leaving Washington and Massachusetts as the leading test sites.

The Washington SEED Project

The Washington project followed the French model (lump sum payments) while Massachusetts applied the British model (periodic payments). Both involved evaluations using an experimental research design requiring the random assignment of a pool of UI claimants into a group receiving self-employment services and subsidies, and a control group not receiving them.

In the Washington project, claimants interested in the project, and potentially subject to random assignment, were required first to attend an orientation session as a first step in the application process. Of the 44,456 UI claimants *invited to participate* in the project, only 7% attended the orientation. Of the group attending the orientation, 61% subsequently applied and were randomly assigned. Consequently, the project was testing the self- employment strategy on a small, self-selected group of claimants. Although the evaluation of SEED was featured in an earlier issue of *Evaluation Forum,* we repeat some of the main findings here, which were reported in detail in DOL's monograph, *First Impact Analysis of the Washington State Self-Employment and Enterprise Development Demonstration.*

Program Implementation: The Process Study

- The dislocated workers in the study groups were older and more educated than the larger universe of UI claimants, and more likely to have been in higher-wage white collar occupations. Many had an employed spouse and substantial assets.
- Clients achieving five interim outcomes received a lump-sum payment equal to their remaining UI benefits. These outcomes were: 1) completion of the training program, 2) development of an approved business plan, 3) the establishment of a business bank account, 4) compliance with licensing requirements, and 5) the obtaining of adequate financing for their proposed business.
- The program treatments clients felt were most useful were business training, the waiver of the UI work search requirement, and the lump-sum payment.

Program Results: The Net Impact Study

- The project increased the likelihood of being self-employed by about six months, a bit more for women than for men.
- Both treatment and control groups started primarily service sector businesses.
- Approximately a third of these businesses failed in the first year, but the demonstration did not appear to affect this outcome.
- Average gross monthly earnings from self-employment were increased by approximately $150/month.
- The demonstration reduced slightly the likelihood that clients would participate in wage/salary employment during the demonstration period, and reduced total earnings from this form of employment.
- Both gross business income and taxes were significantly higher for the treatment group.
- The treatment group worked fewer hours and obtained lower earnings in UI-covered employment.
- If self-employment and wage/salary employment were considered together, the demonstration increased the likelihood of being employed and remaining employed, but had no significant effect on total earnings or average monthly earnings.
- Although the demonstration reduced the length of UI payments, it increased the amount of total benefits when the lump sum payment is included.

The evaluators also gave attention to job satisfaction and job creation for other workers. They found that the demonstration netted 49 new jobs for nonparticipants, although these went mainly to family members, and there was no effect on job satisfaction.

The Massachusetts Project

This self-employment demonstration followed the British model. Clients interested in applying were required to attend a training seminar consisting of a series of training workshops and counseling sessions. An additional condition was that those receiving self-employment allowances would have to work full-time on microenterprise development.

Only about 4% of the 26,170 UI claimants invited to attend the seminar did so. Of this number, 63% applied and were randomly assigned. Again the study group was small and self-selected. Although the DOL monograph on self-employment projects was written prior to obtaining final impact results, the evaluators did come to a few early conclusions:

- It is likely that self-employment is appropriate only for an estimated 5% of UI claimants.
- Self-employment businesses will likely be in the service sector.
- Participants interested in self-employment will more likely be male, white, middle-aged and educated than most UI claimants, and from professional/technical/managerial occupations. Women, however, are likely to be overrepresented in this select group of claimants.

The EDWAA Job Creation Demonstration

With the decentralization of the bulk of EDWAA funding to Service Delivery Areas or local community organizations, the role of Community Development Corporations (CDCs) and other community-based nonprofits in delivering services to dislocated workers became more important. DOL's multiyear Job Creation Demonstration was to study this role, and the evaluation was to judge its effectiveness.

The emphasis in this project was on job creation through self-employment. These were the main results of the evaluation:

- Participants' characteristics varied considerably from one site to another, but overall they were older and better educated than the typical dislocated worker population.
- The selection of applicants also varied greatly, ranging from selection strategies that involved sophisticated screening to self selection. The latter led to a high attrition rate; the former was quite successful.
- Curriculum design using an "adult learning approach," extensive staff and peer support, and substantial technical assistance to individuals appeared to be critical to success.
- Staff qualifications that included practical business experience and a high degree of commitment were important.
- Development of business plans was an essential component of training.
- Lack of access to revolving loan funds and other sources of capital was the most serious barrier to achieving demonstration goals.
- Strategies for designing services and

service delivery systems converged across sites over the course of the demonstration, but organizational problems interrupted services and led to inappropriate hiring decisions, poor communication with participants, and reduced efficiency.

- Coordination with EDWAA was mixed, whereas the CDCs worked well with the UI system. However, the specter of UI sanctions affected data collection for the evaluation, since some participants did not report their previous self-employment experiences and understated their earnings from businesses begun as part of the demonstration.
- In the short term, the demonstrations were successful in launching new businesses and creating secondary employment — 45% of participants started up businesses and 29% found wage and salary employment. Among the businesses begun, 76% were still in operation a year later.
- Comparing the Job Creation Demonstration with the Washington State and Massachusetts UI demonstrations and five other projects suggested that the demonstration's gross outcomes, such as business start-up and short-term survival rates, were on a par with other microenterprise programs undertaken in the same general period.
- Service industries were the most prevalent type of start-up businesses, even though only 22% of the participants had been dislocated from this sector.
- Comparing employment outcomes at follow-up with those of EDWAA substate areas indicated that the demonstration had not produced as beneficial employment outcomes as were characteristic of EDWAA. But when both placements in wage and salary jobs and business start-ups were considered, the six Job Creation sites had an average employment rate of 74% compared to EDWAA's 67%. The evaluators concluded that the acquisition of entrepreneurial training produced marketable skills even if they were not immediately applied to starting a business.
- Earnings from self-employment were generally disappointing. Earnings varied widely from business to business, and net business income averaged only about $1000/month when measured at the six month follow-up and $582/month at the one-year follow-up. These self-employment earnings were much lower than the $12 average hourly wage the participants had earned prior to layoff. Pre-post studies of gross incomes can be misleading. However, on average, it appears clear that dislocated workers tend to earn less in their new jobs.
- The outcomes for demonstration participants who did not start businesses of their own but rather sought reemployment were more positive, matching those of the more traditional EDWAA programs in the same areas — 79% entered unsubsidized employment.

The evaluators made a number of recommendations. If immediate wage replacement were to be a participant's primary goal, they suggested that self-employment did not appear to be a feasible alternative in the short term. If participants and program sponsors were prepared to absorb a certain level of risk, microenterprise strategies were recommended as offering longer-term benefits.

For a small subset of dislocated workers, who were aware of the risks and the effort required, were highly motivated and prepared to develop a specific business concept, self-employment was recommended as a viable strategy. But even workers with these qualities needed access to capital as well as training to be successful, the evaluators concluded. Since a self-employment strategy was distinctly different from a reemployment approach, the evaluators recommended that current performance management systems utilize a set of variables and measures more responsive to the uniqueness of microenterprise development, in judging its outcomes.

Self-Employment in Europe

The section of the DOL monograph on self-employment directs our attention to "European Experience with Self-Employment Programs," by Stephen Wandner and colleagues. It provides a useful if brief overview of European strategies. Although these strategies have undergone policy changes with increasing unemployment and slimmer government human service budgets, it is important to review the strategies that characterized the late 1980s. But we should notice that Canada and Australia have also been interested in self-employment approaches.

These were some of the characteristics of European self-employment programs in 1988:

- Their primary purpose was to promote self-employment (microenterprise development) among the unemployed, to contribute to solutions to unemployment.
- The target groups of these programs usually involved those eligible for income support payments through national unemployment insurance programs, but some included the long-term unemployed and those receiving social welfare benefits.
- The services ordinarily included financial assistance and supportive services. The definition of "supportive" was services designed to assist workers in planning, establishing and operating the businesses they were creating. Financial assistance was offered in 1) lump-sum payments equal to all or part of the funds remaining in an individual's insurance entitlement, which was to support initial capitalization of his or her business, or 2) periodic weekly or bi-weekly payments from the insurance system to give a worker continuing income in the early stages of planning and operating a new business. The payments often lasted for a year.
- A comprehensive package of services included a number of business-related services, although the ingredients of the package varied greatly from country to country. These ser-

vices encouraged business counseling, entrepreneurial training, technical assistance, exemptions from certain business taxes and legal requirements, and preferential access to business loans and grants outside the programs.

- In some countries, microenterprise development was limited to certain economic sectors, and to special categories of the unemployed.

Based on selective gross outcome studies, both the French and British models appeared to have a positive effect on employment and economic development. Compared to the actual numbers of unemployed workers served by American demonstration projects, these programs enrolled large numbers of the unemployed. In France, the Chomeurs Createurs program enrolled 72,000 in 1986. The British Enterprise Allowance Scheme exceeded 100,000 participants in 1987. However, the prediction of the evaluators studying the U.S. demonstrations was consistent with the French and British experience, namely that under 5% of the unemployed were appropriate for self-employment programs.

Increasing familiarity with self-employment efforts in Europe led to substantial transnational borrowing of self-employment concepts. Enough so that the National Governors' Association and the Corporation for Enterprise Development jointly sponsored a national conference on self-employment strategies in 1987. The conference brought experts from Europe, Canada and elsewhere to address self-employment issues at the time Americans were touring European programs under the German Marshall Fund. The borrowing, however, was mainly by Americans from Europeans.

Evaluating Self-Employment Programs in Europe

The Appendix of the DOL monograph contains an interesting UI Occasional Paper on *"Self-Employment Programs for the Unemployed: Program Operation and Policy Research in Western Industrialized Countries."* Its intent is to propose a common methodology for evaluating self-employment programs wherever found, based on an expert panel developed by the Organization for Economic Cooperation and Development (OECD) in Paris.

The conclusion of the authors, who remain unamed in the paper, is that most European programs have been studied using a descriptive research design and survey methods, particularly surveys of participants. Periodic surveys have formed a longitudinal database for analyzing process issues and gross outcomes.

In general, however, European E&T programs were not systematically evaluated in the 1980s. Of the 17 OECD countries with operating self-employment programs, 10 had not produced evaluation reports. Most of the evaluations conducted had been limited to process issues, in the context of weak public sector support for and experience with impact evaluations. In the E&T field, this may have been related to the tendency for European universities to produce many more excellent theoretical economists than applied econometricians.

In their discussion, a major difference surfaces between contemporary American evaluation approaches to new program initiatives and European orientations. With respect to self-employment programs, for example, European governments have not been under pressure to test new ideas through demonstration projects. Programs there are more often than not the products of government agency policies that tend not to be dependent on the results of evaluations.

Under public pressure to establish accountability, aided and abetted by the elaboration of the evaluation research field, *the pattern in the U.S., particularly beginning in the 1980s, was to test innovations or reforms in well-planned small-scale pilot projects that could be evaluated using experimental or quasi-experimental research designs prior to full-scale adoption.* Exceptions existed, of course, such as JTPA, although its design benefited indirectly from previous E&T research on CETA and other programs. And a large number of experimental evaluations of work/welfare demonstrations preceded and were fed directly into the design of the JOBS program.

In considering what to propose as a common methodology for evaluating diverse self-employment programs, the authors turned to the OECD panel. This group of experts identified six major issues that could and should be studied:

- How important the provision of government assistance for business start-up really is.
- To what extent business ventures generated by programs would have occurred in their absence.
- Whether the methods used to target services to subgroups within the eligible population are effective.
- How long program effects seem to last.
- How cost-effective programs actually are.
- How programs affect potential future dependence on unemployment insurance and other income support programs.

Appreciative of these issues, the authors of the paper suggest a very simple evaluation paradigm. Program elements are classified either as "inputs" or "outputs," and the evaluator's task is to determine how the inputs affect the outputs, or at least what kinds of relationships exist between them. Inputs are: 1) targeting services, 2) vetting service (selecting among the business plans submitted), 3) financial services, and 4) support services (an array of technical business-related services). Outputs for participants are employment and business retention. Outputs related to economic development goals are the generation of economic development activities and the creation of new jobs.

Emphasis is placed, in this paradigm, on 1) the adequacy of databases supporting evaluation, including information on the background and characteristics of clients, information about the services received, and performance indicators, and 2) the collection of data over time. The authors also suggest a series of indicators which they classify within these categories: 1) employment for the proprietor, 2) enhanced business survival rate, 3) contribution to the local and macro economy, and 4) new job creation. They appropriately recommend the use of measures of job displacement. They review problems with descriptive and quasi-experimental research designs and advocate for experimental approaches in determining program effects.

Commentary on the Wisdom of Self-Employment Strategies for Dislocated and Otherwise Unemployed Workers

We have learned a great deal from the projects generated by the increase in dislocation in the 1980s and the U.S. government's strong response in exploring a range of service options using state-of-the-art evaluation research principles and methods. Some of the main lessons are that self-employment is most appropriate for a very small, select group of dislocated workers who are highly motivated, disciplined and planning-oriented in the way they go about developing businesses supported by government income support and training. These program participants must also be risk-takers of a sort, willing to try something new with all the attendant anxieties. The results from the final report may shed more light on the effectiveness of self-employment strategies.

Therefore it looks as if effective recruitment and screening strategies will be essential to install at the front end of microenterprise development programs. Ways to sustain motivation and discipline will surely be important. And it is fairly clear that the training must be tailored to the individual and his or her business, with ongoing case management that emphasizes technical assistance as well as other kinds of support.

This is a somewhat different concept of microenterprise development than in Eastern Europe and third world countries, where it is offered as a significant intervention for large groups of unemployed workers. For example, in the early 1980s the Chinese government stressed self-employment as a major dimension of the liberalization of the economy, only to find that business failures outnumbered successes five years later. Carefully targeted self-employment programs, on the other hand, appear to have contributed effectively both to job creation and to economic development.

Defense Conversion and Dislocation

Editorial Introduction

Cutbacks in the defense budget related to the end of the Cold War have been heralded by the American public as a bonus, a symbol of a less dangerous world, a chance to transfer savings to the resolution of pressing societal problems. But the changing budget fortunes of the Department of Defense have not yielded all the positive effects anticipated. Anxiety remains about defense readiness in a world complicated by ethnic, religious and territorial conflicts, and about the impact of defense restructuring on military personnel, defense-dependent communities, and defense-related businesses and industries. The following set of articles explore some of the issues involved in this phenomenon of the 1990s.

Defense Downsizing: Some Implications

The Cold War ended in dramatic changes in the political economy of defense in the U.S. Its demise spawned a new vocabulary as well — terms such as "drawdown," "downsizing," "conversion," and "transition."[1] The implications of the end of the Cold War for workers affected by reduced defense spending has been equally dramatic. The U.S. Department of Education's 1993 report, *The Conference on the Role of Education in Restructuring Defense and Other Industries* reminds us that the U.S. Department of Defense has been and remains the nation's largest employer. Furthermore, as an employer it is known for its integration of education and training with the culture of work, and its incorporation of new technology within skills acquisition.

Given rather unique opportunities for education, training and retraining within the military, unprecedented drawdown and downsizing in the 1990s represent an unusual test of the relevance of military training for the civilian economy. Since these changes have involved a major dislocation of workers within and outside the military, innovative strategies have been essential to reducing the negative consequences of dislocation.

Background Information

At the end of fiscal year 1987, the active duty military was at a post-Vietnam peak of 2,174,217 positions. The National Defense Authorization Act of 1991 projected a strength of 1,613,000 positions by the end of 1995. This was about a 25% reduction. By 1997, Department of Defense outlays were expected to decline by approximately 30%. This could represent a loss of as many as 800,000 military and civilian Department of Defense (DOD) jobs between 1987 and 1997, and could affect as many as a million additional private sector jobs over the next several years.

Although the U.S. has always lost and replaced large numbers of military personnel every year, this significant multi-year downsizing effort has translated to far greater personnel change than is traditional, with the potential for a high level of involuntary separations. Clearly there has been a long-term restructuring of the nation's defense priorities. As a result, the Congress authorized a range of assistance efforts in the 1990s to facilitate downsizing, while minimizing its impact on the individuals, businesses and communities affected.

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[1] The Defense Conversion Commission within the U.S. Department of Defense defines *conversion* as "the process by which the people, skills, technology, equipment and facilities of defense are shifted into alternative economic applications." It views conversion as "a process of *transition*."

The first priority of the Defense Department has been to achieve *voluntary* reductions. It has successfully drawn down military forces across various skill and seniority sectors using strategies that will have the least negative impact while maintaining the level of experience needed. However, as the U.S. General Accounting Office (GAO) pointed out in their September 1993 report, *Military Downsizing*, significant additional reductions will result in a larger proportion of involuntary reductions. A recent *Bottoms-Up Review of DOD* needs and programs for 1995 through 1999 supports this conclusion. We should keep in mind, however, that the impact of this current drawdown is considered by experts to be smaller than that of the drawdowns after the Korean War and Vietnam, and less severe than other recent economic dislocations.

Strategies for Limiting Involuntary Separation

Early release of personnel prior to the normal end of their enlistments has been one strategy. Another has been financial separation incentives to induce people to leave. The Defense Authorization Act of 1992 and 1993 supported the use of financial incentives through 1995 for those who had completed six years of service at the time the law was enacted. New early retirement options have been used also. On the involuntary reduction side, DOD has tightened the quality standards for retention and has created special boards that can mandate the retirement of selected personnel from among those already eligible for retirement.

The careful shaping of a smaller military force has favored the retention of the more skilled and experienced personnel, which is important. But we still have issues to resolve regarding involuntary separation. The GAO report recommended that the Congress consider extending the use of financial separation incentives beyond 1995, and amending the legislation to include in the eligible pool for incentives all personnel who have attained six years of service within the timeframe for which these incentives are authorized.

The Role of the Defense Conversion Commission

The creation of the Commission within DOD was an important step in dealing with the issue of dislocation. It provided a framework for monitoring and judging the process and consequences of the defense drawdown. It is a key source of recommendations for resolving problems, and for embracing new possibilities associated with conversion.

The Commission's 1993 report, *Adjusting to the Drawdown,* explains its assessment goals and methods, which now provide general guidance to federal efforts to make the conversion process work. The Commission's four goals are:

1. To facilitate the transition by encouraging economic growth over the long run.
2. To preserve defense capabilities.
3. To ease the impact on workers, communities and companies.
4. To improve government policies and programs in terms of their efficiency and effectiveness.

The Commission recognized that economic growth was a critical factor in facilitating conversion and alleviating its negative effects, and took the position that this growth should come from redirecting defense resources into *investment* rather than *consumption.*

With respect to easing the impact of conversion, the Commission felt broader use needed to be made of *integrated community-level planning,* encouraged and supported by the federal government. To improve existing government assistance programs, the Commission recommended a set of *principles and criteria for evaluating these programs,* with strong emphasis on specifying objectives and using quantitative measures to judge how well these objectives were being achieved. Greater coordination across old and new programs was given high priority. Overall, the Commission felt that the conversion process was, in itself, an opportunity to make improvements.

This upbeat attitude was reinforced by the Commission's computer simulations regarding the longer-term consequences of the drawdown. These were generally optimistic. Analysts predicted that the drawdown's main short-run effect would be a slight downward pressure on output and a *temporary* increase in unemployment. But if defense spending were to be replaced mainly by investments in plants and equipment, human capital, and research and development, the prediction was that economic growth might actually speed up over the longer-term. Since general economic growth has been such an important tool in reducing the impact of drawdowns, the Commission felt the Administration and the Congress should give special attention to investment tax credits, banking reforms, deficit reduction, education reform, the removal of trade barriers, tax reform, and increased spending on infrastructure.

Assisting the Dislocated

The complex network of assistance efforts funded by the Congress in the 1990s is very difficult to sort out. Employment and training administrators, managers and evaluators clearly need to learn more about the many federal efforts to assist the defense conversion transition. And these efforts need greater integration.

In the meantime, one important source of information is the *Office of Economic Conversion Information* (OECI). This office is the result of a collaborative effort on the part of the *Economic Development Administration* and the *Economic and Statistics Administration* within the U.S. Department of Commerce, and the *Office of Economic Adjustment* in DOD. The OECI manages a major information clearinghouse on defense conversion relevant to workers, communities and industries. This automated system provides information on current press releases and legislation, publications and resource materials, *worker adjustment programs,* and related issues.

Another source is the *Logistics Management Institute* (LMI), a private nonprofit research and development organization established in 1961 and funded by DOD. Its new *Center for Defense Conversion and Economic Renewal* produces policy, economic, and fiscal management analyses and offers access to a number of databases on economic adjustment challenges. The databases focus on two sets of issues: defense activity, and federal, state and local adjustment programs.

Congressional funds for assistance programs have flowed mainly to the DOD and from there to other relevant federal agencies, such as the Departments of Labor and Commerce. One of the Logistics Management Institute's major assignments in providing input to the Defense Conversion Commission has been to prepare an exhaustive *Compendium to Assist the Transition.* This compendium provides a description of each program, its sponsor, the organization responsible for its implementation, and the amount of its funding. This information helps considerably in sorting out the spectrum of programs for different kinds of recipients.

Transition assistance in the form of *retraining and reemployment* for affected workers has been considered critical. However, a broad-range strategy appears to be needed that simultaneously invests in sound, appropriate worker training, assistance to businesses to increase their performance, research and development assistance to advance technology, and help with economic development efforts. A recent report by the *Office of Technology Assessment* (OTA) of the U.S. Congress, *After the Cold War: Living With Lower Defense Spending,* has recommended this kind of approach.

The authors of the OTA report remind us that in 1991 national defense employed approximately six million people in the *private sector,* in the *active duty military,* and in the *DOD civilian sector.* This was 5.1% of total national employment. The authors propose that as many as 2.5 million defense-related jobs could disappear by 2001. They point out, however, that not all of this shrinkage means actual job loss, since approximately three-fourths of this downsizing will be through *attrition.*

The larger problem, they suggest, is *the extent of employment losses in any one period,* large declines in any given period making readjustment more difficult. Eight of the fifty states are above average in their dependence on the defense industry. And even with the present level of economic recovery, it is hard to replace the well-paid jobs defense manufacturing has offered. There is also the issue of minorities. Of all employed black men between eighteen and twenty-nine, 10.6% are in the military compared with 5.4% of white males. The shrinkage of the defense establishment may represent *a major loss of employment opportunities for minorities.*

The Larger Picture

The OTA report also indicates that communities at serious risk due to defense cutbacks are not receiving as much assistance as they often need. Federal economic development programs have lacked funding perennially. Defense-dependent communities received an additional 50 million for 1991 through 1993, but this was still much less than the amounts available in the past. And states have had difficulty sustaining innovative economic development projects. In this context, the report contained some useful recommendations:

- Deliver services more promptly.
- Target communities in greatest need.
- Supplement state programs.
- Offer a range of technical assistance to help companies grow rather than attempting to motivate them through tax subsidies.

Another complication the report gives attention to is the reluctance of major defense contractors to initiate large-scale dual-use conversion projects, believing that the differences between defense and civilian cultures and practices are too great. Producing components and subsystems rather than final products, the report states, is more likely to launch dual-use production. Government technical, marketing and financial assistance is viewed as important in helping firms move into more commercial activities.

A second OTA report in 1993, *Defense Conversion: Redirecting R&D,* also offers useful insights and recommendations about converting defense industries and their research and development efforts. The latter is a significant issue in that the defense complex has supported a disproportionate share of U.S. research and development, some of which has important civilian applications. It has established major civilian industries, and has afforded high-quality, well-paid jobs. Some of this R&D provided a large market for technologically advanced goods and services. Relevant to these spinoffs, the report admonishes the government not to waste the valuable human, institutional and technological resources formerly assigned to defense purposes.

This second OTA report also suggests ways to re-use these defense-related resources, such as the development of new environmental protection occupations, the creation of renewable energy sources, the development of high energy-efficient and non-polluting transportation systems, and the production of a new generation of high-performance computers and networks. As with most phenomena of the proportion represented by current defense conversion activities, multiple, coordinated strategies are required. We no longer fear global nuclear war. With the end of the Cold War we have the freedom to work toward national goals other than military security. Many experts insist we must use this opportunity to move forward as an economic competitor in an international marketplace — and at the same time ameliorate the hardships experienced by defense workers, defense-dependent communities, and defense companies during this transition period.

Studying Defense Conversion in Affected Communities

In this article we look at an interesting 1993 study of seven sites in the U.S. that have been impacted significantly by defense cutbacks. The study was sponsored and funded jointly by the Economic Development Administration (EDA) of the U.S. Department of Commerce and the U.S. Department of Defense's Office of Economic Adjustment, and conducted by the Northeast-Midwest Institute. The study report, *Defense Adjustment and Conversion: Lessons from Seven Sites*, is the basis for the review.

The Nature of the Study

The sites selected for the process study were San Diego, Minneapolis, Indianapolis, Albuquerque, Bath (Maine), and Sunnyvale (California). The researchers used focus groups in each site to explore *how defense cutbacks were affecting workers, businesses and communities; what plans local leaders had developed for coping with the consequences; and how these communities could promote effective economic adjustment and diversification.*

The additional purpose of the focus groups was to support coordination among key actors and constituencies in these communities and some level of agreement about what action should be taken. To achieve this latter purpose, focus group participants were provided with information obtained from case studies of defense adjustment and conversion, and from programs designed to resolve problems associated with military cutbacks. They were encouraged to discuss how the roles and responsibilities of the different kinds of organizations and groups participating in the focus groups should be defined, in the process of developing strategies for solving problems in their own communities.

The Larger Context

The authors of the study report, Charles Bartsch, Paula Duggan and Matt Kane, propose that in the larger economic environment military cutbacks will have a beneficial effect on the national economy, releasing funds for deficit reduction. However, the impact on particular regions and industries clearly varies. The variation is influenced, they say, by the following factors:

- The size of the cuts.
- The speed with which they are made.
- The mix of cuts vis-a-vis procurement, operations and/or personnel.
- The overall strength of the U.S. economy at the time of the cuts.

The authors give us an important glimpse of defense expenditures, to provide a background for understanding the implications of defense downsizing. About 75% of defense purchases are made from manufacturing industries; 21% from the service sector. The rest is from construction, agriculture and mining. More than 15% of the total output of 31 industrial sectors involves defense-related activities. At least 29 of these industries manufacture durable goods. Some estimates indicate that as much as 57% of *military-related employment* is in the manufacturing sector.

Recognizing the effect of reduced purchasing in this sector, the U.S. Department of Defense (DOD) has reformed its regulatory procedures to assist companies in defense-dependent industries — in order to reduce their costs, and to become more competitive. The DOD has also eliminated "recoupment fees," or reimbursements much like royalties, that private companies on federal contracts had to contribute to the federal government when they developed products or technologies that became viable in the civilian market.

In terms of employment, although the portion of the labor force in defense-related businesses and industries is small, it is nevertheless significant. In 1989, the authors indicate that about 3.4 million private sector workers were employed directly or indirectly in defense-generated jobs — about 5% of the total labor force. Eleven industries that were highly dependent on the defense budget at that time employed nearly 1.8 million workers. In industrial sectors such as guided missiles, shipbuilding, ammunition development, and tank construction, 75% of workers owed their jobs to defense spending.

This *defense workforce* differs in important ways, the authors propose, from the average labor pool. It consists largely of professionals, skilled and semi-skilled craft workers, clerical workers, and fairly skilled support staff. The Office of Technology Assessment of the U.S. Congress concluded in their 1992 study of the defense workforce that it was more highly trained and skilled than workers in other sectors of the economy. Its workers were making high wages. These characteristics clarify what a substantial impact sudden job loss can have in terms of the *reemployment* challenge.

The change in the fortunes of the defense workforce must be understood in the context of the trend in manufacturing jobs since the late 1970s. The occupations most at risk have been in manufacturing areas — engineers; technicians in engineering and science; computer specialists; craft and similarly-skilled production workers; and less skilled operators and laborers. Overall, manufacturing jobs have not risen since the late 1970s and have fallen by 5% since 1990.

Areas with a high concentration of advanced technology firms and military bases have been the hardest-hit. Eight states accounted for about one-fifth of the defense spending in 1991. States with a large number of military bases and facilities had become the most dependent. The Congressional Budget Office reported in 1992 that a defense reduction of 20% between 1991 and 1995 could result in a significant output loss in the District of Columbia and ten states. Commercial-sector jobs associated with defense production are affected in these areas as well.

Federal Assistance for Adjustment Purposes

The *Defense Conversion, Reinvestment and Transition Assistance Act* of late 1992 authorized a set of new programs responsive to the difficulties being experienced by certain businesses and industries, and by whole communities, as a result of defense cuts. Much of the funds for these programs flowed to beneficiaries in fiscal 1993. Some of the funds were channeled into existing economic development, worker training and education programs, but a portion went to new initiatives. Some of these were expected to enhance manufacturing competitiveness by emphasizing "critical technologies" and "dual-use technologies:"

- *Commercial-Military Integration Partnerships:* the DOD was to work with high-tech firms to develop and commercialize high-payoff applications for dual-use technologies.
- *Regional Technology Alliances Assistance Program:* funding was to enable the development of alliances among defense firms (and prime contractors) to develop and apply critical defense technologies for dual use — defense and civilian — with an emphasis on regional diversification in defense-dependent areas.
- *National Defense Manufacturing Technology Program:* the federal government was expected to engage small defense firms in using military technologies as a base for diversification.
- *Technology Transfer Initiatives:* these were to encourage private sector businesses to transfer military technology for civilian use.
- *Defense Advanced Manufacturing Technology Partnerships:* DOD was to share the costs borne by firms in developing and applying manufacturing technologies for military and civilian production.
- *Manufacturing Extension Program:* this program was to improve the competitiveness of manufacturing technology.
- *Dual-Use Extension Program:* this involved a number of programs to assist defense suppliers in making the transition.
- *Small Business Innovative Research Program:* this program increased DOD's R&D funds directed to small businesses.

Looking at the funneling of DOD dollars through multiple programs benefiting the American economy generally, one cannot avoid exploring issues of corporate charity and the need for program consolidation. Congress provided $694 million to assistance programs targeted to the private sector in the 1992 legislation.

Assistance to Workers

While the issue of equity was raised by this large allocation to businesses, $686 million was being directed to *worker adjustment programs.* Most of these programs assisted military personnel separating from the service and civilian workers employed by DOD. The programs are providing separation counseling, incentives for early retirement, extended benefits such as health care, increased training for civilian occupations, and the establishment of hiring preferences for these workers in government jobs. Seventy-five million of the total funding is to be used for a new program for dislocated workers similar to DOL's EDWAA — although DOD was given the option of simply adding this amount to JTPA Title III. DOD is to notify defense contractors of federal cuts affecting them, and will require them to post jobs with the Employment Service. The legislation also requested educational institutions to provide training in environmental occupations.

Assistance to Communities

The budget earmarked for community assistance in the 1992 legislation was $132 million. Eighty million of that was to be transferred from DOD to EDA in the U.S. Department of Commerce. In addition, DOD's Office of Economic Adjustment received increased funding to permit the distribution of both planning grants and implementation grants for assisting communities, of the kind already distributed by the EDA.

The Results of the Seven-Site Study

Two major themes ran through the recommendations of private sector participants in the focus groups:

- Remove regulatory and administrative barriers that impede the adaptation of dual-use technologies:
  - Accounting requirements.
  - Proprietary rights limitations.
- Increase government support for diversification and adjustment programs designed to help defense-dependent companies shift to civilian markets:
  - Technical assistance.
  - Advice on gaining access to the technologies necessary for the shift.
  - Advice on marketing strategies.
  - Information about new markets.

Public sector participants wanted governments at all levels to adopt a more flexible approach to worker training, the financing of economic development, and to other programs. Although the sites were quite diverse, the focus groups yielded common proposals:

- Business leaders should identify alternative operating scenarios and be prepared to restructure their businesses so as to be competitive in civilian markets.
- Defense-related companies need a range of information to increase their export potential:
  - Identification of overseas markets.
  - The defining of prospective market "niches."
  - Information about mechanisms linking U.S. manufacturing capabilities and technologies with prospective foreign purchasers.
  - Information about how to target markets with growth potential.

- Worker adjustment program rules and regulations should be more flexible, to allow defense-related dislocated workers to be better served.
    - Increased ability to launch publicly-funded retraining programs prior to the loss of a job — for example, training for new technologies as part of a company conversion or product diversification project.
    - Better information on emerging new skills and their mesh with existing work skills
- More specialists in commercial management, productivity, marketing and purchasing need to be produced.
- A successful business retention strategy should be developed, targeted to defense-oriented companies.
- Acquisition of capital should be more accessible and affordable, to carry out defense adjustment policies and strategies.
- DOD should adopt a more quality/results-oriented approach to military procurement that places less stress on detailed specifications.
- There should be greater support for the development of "critical technologies" by small businesses, to increase the number of high-quality employers and reliable specialized vendors for defense-related parts and components.
- DOD's proprietary rights regarding the dissemination of information should be limited, to increase the integration of military and commercial production.
- DOD policies and regulations that fit the Cold War but now interfere with efforts to convert or scale back production should be eliminated, within the goal of maintaining critical technologies.
- DOD stipulations regarding cost and pricing data, certifications and audits should be overhauled.
- There should be a study of 1) key defense-related industries, 2) workforces and 3) skill needs by the federal government, and *a national industrial agenda should be developed* — or at the least defense manufacturing policies should be coordinated — to ensure that necessary technologies and production capabilities can be maintained.

Some Final Study Conclusions

The authors conclude that a successful adjustment strategy must "bring a high level of visible participation and commitment" to this effort by *local political and business leaders.* Simple interest in the problem will not suffice. Communities need to launch *formal needs assessments and planning processes* which speed adjustment efforts. Those sites that had established formal planning structures and processes were making the greatest progress. They had used a series of meetings and surveys to identify the potential magnitude of the problem, the nature and scope of existing workforce skills and manufacturing capability, and other information needed to construct a workable adjustment strategy. This information base was considered essential to the achievements realized.

The following kinds of information were recommended for this information bank:

- Numbers of workers employed and unemployed.
- Numbers of actual and likely plant closings, and what industrial sectors they represented.
- Numbers of workers on layoff from defense-oriented companies, and their skills.
- Kinds of emerging industries in the area, and the types of workers they were likely to hire.
- Information on the education, training and social service resources available.
- Job creation information.

The participants in the focus groups also felt that each community's defense adjustment effort required a mechanism for initiating, organizing and maintaining action, such as a person, group or organization that commanded community respect and support, and could serve as a focal point for policy development, planning and oversight activities.

Implications of the Study for Different Levels of Government

The focus groups placed an unambiguous emphasis on 1) a national dual-use business and industrial policy, accompanied by increased federal technical and financial assistance to state governments, defense-oriented employers, and local communities affected by downsizing, and 2) greater efforts on the part of community political leaders, government agencies and the private sector to identify the array of needs due to defense cutbacks, and to take well-organized action to reduce the negative fall-out.

The thrust of the study has important implications for current federal efforts to consolidate and otherwise coordinate workforce development policies and programs, and integrate their information systems — and for states' new efforts to establish comprehensive state-wide councils responsible for accomplishing the same goals. The major message would seem to be that defense adjustment requires a multi-dimensional strategy involving assistance to dislocated workers placed within the larger context of assistance to businesses and communities.

The recommendations flowing from this study would suggest strongly that the Departments of Defense, Commerce, Labor, and Health and Human Services should increase their coordination and collaboration on defense adjustment issues, and that state workforce development systems should incorporate economic development agencies within their formal structure and functions.

Programs to Ease the Adjustment to Defense Cutbacks

In the early 1990s, the Defense Conversion Commission in the U.S. Department of Defense funded the Logistics Management Institute (LMI) to analyze and classify information about the myriad programs providing some kind of assistance to individuals, businesses and communities related to defense downsizing. LMI subsequently collected data on these programs and interviewed a large number of federal, state and local officials about them. Their effort produced the *Compendium of Programs to Assist the Transition,* published in Feburary 1993.

The Compendium includes programs in existence prior to the National Defense Authorization Act for Fiscal 1993, and those initiated through this legislation and some of the legislation that followed. Sixty-one of the 144 programs were sponsored by state and local communities, even though the latter were sometimes utilizing federal funds.

The Nature of Assistance Programs

The major assistance programs in the Compendium are federally-funded and emphasize training and economic development. They tend to serve as the ultimate safety net for individuals affected by defense cuts and drawdowns. Programs targeted to industries stress development and technology transfer. Almost all state programs involve job training oriented to job retention or reemployment. Industry programs also concentrate on worker training, as well as industrial development. Service delivery for federally-funded programs are the responsibility of states, while local programs are directed mainly to local employment and economic development.

The Compendium is well organized and detailed, reviewing separately programs for individuals vs. programs for states and communities, according to their funding sources. Figure I lists the programs for individuals, summarizing selected federal programs for workers displaced from the military and/or defense-related employment.

A number of states have their own programs covering services to dislocated military and workers in defense-related businesses and industries. Important examples are California's Employment and Training Panel, New York's Skills Training Program, and Washington State's Job Skills Program and vocational education effort.

Clearinghouse Activity

The DOD and Department of Commerce jointly maintain a useful clearinghouse, the *OECI Clearinghouse,* which tracks the assistance provided to individuals, businesses and communities in the plethora of programs created due to defense restructuring and downsizing. For example, summaries are available for the *Defense Industry Adjustment Projects* which break down information by type of award granted to states — state planning grants, advanced planning grants, and defense industry adjustment grants — and describe each project.

Recent Initiatives

In March 1995, President Clinton announced a new five-year package of programs under the *Defense Transition Program.* These were mainly reinvestment and transition programs developed by the Congress but not implemented by the Bush Administration. In the President's FY 1995 budget request, funding for four categories of programs was requested: workforce, community, dual-use technology, and non-defense technology. Under workforce initiatives, the main interest was in *separation pay and retirement incentives,* and in *education and training.* Out of the seven education and training programs recently established by Congress, the President chose to emphasize two that trained active duty military for public service-oriented jobs, the "troops to teachers" and "troops to cops" programs.

Not included in the funding request, however, were three environmental education programs authorized in the FY 1994 Defense Authorization Act, and funding for the Occupational Training Program that was to partially reimburse firms for the cost of employer-provided training if these firms hired and trained former military personnel.

In 1994, rather than transferring defense adjustment funds from the DOD to DOL, DOL requested a general funding increase for dislocated worker programs. Congress provided over one billion in FY 1994 for dislocated worker assistance in DOL, of which $125 million was to be earmarked for defense workers. The Administration's 1995 request includes approximately $1.5 billion for Title III, with an estimated $195 million going to workers dislocated from defense-related employment.

Evaluation Mandates

Conspicuously absent from descriptions of DOD programs for dislocated workers within, separated from, or outside but related to the military is any mention of *program evaluation.* While Department of Education and DOL programs have substantial evaluation requirements, the DOD programs do not appear to have such requirements. Although the Defense Conversion Commission has taken a strong position on the need for performance measures, no performance management system comparable to that required for the DOL programs seems to be in place. If true, this would be a serious deterrent to sound policy development for this portion of the dislocated worker population.

The Department of Education Report

In May 1991, the Office of Educational Research and Improvement (OERI) organized a conference to examine the role of education in restructuring defense industries and ways to ameliorate the negative impact of such restructuring on workers. Much was already known. In 1990, over 200,000 active and reserve service personnel and veterans used educational benefits to help pay for their education. A study completed in 1976 had suggested that the earnings of veterans using Montgomery GI Bill benefits were 10% higher than they would have been otherwise. A subsequent study indicated that educational benefits used by Vietnam-Era veterans and by servicemen in

Figure 1 ■ Programs for Workers

Programs in Existence in 1993

Program and Funder	Target Group	Type of Assistance
Involuntary Separation Pay Program DOD	Active members of military with 6-20 years of service involuntarily separated from service.	Lump sum separation payment.
Montgomery GI Bill DVA	Active members of military and National-Guard.	Educational stipends.
Post-Vietnam Era Assistance DVA	Same as above.	Same as above.
Vocational Rehabilitation and Counseling DVA	Disabled veterans.	Counseling, education, training, and support services.
Voluntary and Special Separation Incentives DOD	Selected active members of military—officers, enlisted members—who agree to voluntarily leave military.	Series of annual payments or lump sum in return for voluntary separation and continuation in reserves.
Defense Automated Transition Systems DOD	All members of military separating from armed services.	Job placement assistance. (The system is in cooperation with DOD's Transition Assistance Offices, which are often co-located with family and community support centers.)
Armed Services Career Alumni Program DOD	All armed services personnel in process of leaving services, and their families.	Career guidance, benefits counseling, job search assistance. (Members of armed services leaving military receive certification of their job experience and skills while in military.)
Interagency Placement Assistance Program DOD	Members of military leaving service.	Job placement assistance, and the communication of the availability of these individuals for employment to the federal agencies.
Reemployment Priority List DOD	Members of military leaving service due to dislocation.	Listing of individuals on priority list for federal jobs.
Transition Assistance Program DVA/DOD	Separating service members.	Three-day job search assistance seminars through state Employment Service.
Priority Placement Program DOD	Dislocated federal civilian employees.	Job placement assistance.
Displaced Employee Program All agencies.	All federal employees involuntarily separated.	Job placement assistance.
JTPA Title III EDWAA	Dislocated workers.	Rapid response assistance, training, basic readjustment assistance, needs related payments. (The 1993 National Defense Authorization Act amended Title III to establish discretionary program designed to respond to reemployment needs of 1) those at risk of dislocation and 2) dislocated military, DOD civilian personnel, and defense workers.)
Employment Service DOL	All workers.	Job search and placement assistance.
Unemployment Insurance DOL	Eligible unemployed workers.	Fiscal benefits.

Figure 1 continues

Figure 1 ▪ Continued

Programs in Existence in 1993

Program and Funder	Target Group	Type of Assistance
Job Opportunities and Basic Skills Program (JOBS) HHS	Adult recipients of AFDC.	Education, training, employment assistance, and support services.
Federal Work Study DOE	Higher education students needing financial assistance.	Financial aid.
Federal Family Education Loans DOE	Same as above.	Stafford Student Loans, PLUS loans, and Supplementary Student Loans.
Federal Pell Grants DOE	Same as above.	Educational grants, up to five years.
Federal Supplemental Educational Opportunity Grants DOE	Same as above.	Undergraduate/graduate nonrepayable grants.
Federal Perkins Loans DOE	Same as above.	Loans with delayed repayment.
1990 Carl D. Perkins Vocational and Applied Technology Grants DOE	Same as above.	Vocational education grants.
Service Members Occupational Conversion and Training Act of 1992 DOD	Dislocated members of armed services.	Six to eighteen months of occupational retraining.

Programs Created by the 1993 Defense Authorization Act and Subsequent Legislation

Program and Funder	Target Group	Type of Assistance
Continued Health Coverage for Military and Dependents DOD	Former service members and their families.	Temporary health benefits.
Skill Training Programs for Civilian Personnel DOD	Dislocated DOD civilian employees.	Occupational training.
Separation Pay DOD	Dislocated DOD civilian personnel.	Lump sum payments.
Teacher and Teacher's Aid Placement Programs DOD	Separated members of armed forces, terminated DOD civilian employees, displaced scientists/engineers working for defense contractors.	Education to acquire teacher or teacher aide certification, job placement assistance, stipend during first two years of teaching.
Environmental Scholarship and Fellowship Programs DOD	DOD employees.	Fellowship for training in resource management/restoration. (DOD also funds grants to higher education institutions to provide training in environmental restoration and hazardous waste management.)
Defense Diversification Program DOD/DOL	Displaced military and employees of defense contractors.	Transition adjustment and employment services. (Expansion of Interstate Job Bank Programs and coordination with Defense Outplacement Referral System.)

Acronyms: DOD = Department of Defense; DOL = Department of Labor; DOE = Department of Education; DVA = Department of Veterans' Affairs; HHS = Department of Health and Human Services.

the all-volunteer army raised overall earnings for veterans by an average of about 6%, if used for college or graduate school. These findings were consistent with other studies in the 1980s and 1990s showing significant earnings gains for college graduates and those with graduate degrees.

Another set of analyses offered similar insights. The conference benefited from ten commissioned policy papers relying on relevant research. "Lessons from the Past: Mitigating the Effects of Military Cutbacks on Defense Workers," by Lois Lembo and Judith Phillips, makes a substantial case for education as a vehicle for reducing the dislocation effects of defense cutbacks, and for ensuring that defense conversion contributes to workers and the economy. Burt Barnow and Amy Chasanov's paper on "Firm-Based Education and Training of Workers" illustates in a case study of the Xerox Corporation how companies can use education and training to maintain their economic health in the midst of unexpected changes in federal budget priorities.

If we are to determine the actual impact of the many DOD transition assistance programs, the kind of research expertise illustrated in OERI's report on the conference, *Military Cutbacks and the Expanding Role of Education,* needs to be applied to these programs. The Department of Labor and Department of Education research efforts would seem to offer useful models.

Findings from the Defense Conversion Adjustment Demonstration Project

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Background on Defense Conversion

As a result of the end of the Cold War, outlays by the U.S. Department of Defense are projected to drop by 30% between 1987 and 1997. These reductions in defense expenditures have affected defense industry workers and military personnel, private firms that are dependent on defense-related sales, and communities with military installations and/or concentrations of defense firms. The term "defense conversion adjustment" refers to the process by which communities, firms, and individual workers adjust to the defense drawdown.

- At the *community* level, defense conversion requires decision-makers to plan for and address the immediate impacts of reductions in defense spending on affected firms and laid-off workers, while building a foundation for economic renewal by coordinating all available community resources.
- At the *firm* level, defense conversion is the process by which defense-dependent firms develop new processes and products that will enable them to compete in commercial markets. Necessary changes may include reorganization of the workplace and training workers and managers in new technologies and high performance workplace skills (HPWO).
- At the level of the *individual worker,* defense conversion is the process by which defense industry workers and military personnel prepare themselves for jobs in the non-military commercial sector. This conversion process may involve learning new technical or occupational skills or how to adjust to corporate culture in the commercial sector.

In May 1992 the U.S. Department of Labor (DOL) became directly involved with defense conversion when it announced the availability of funds to support innovative strategies to assist workers, businesses and communities affected by downsizing.[1] Twelve Round 1 DCA grants were awarded in November 1992, and another seven Round 2 grants a year later. Grants were awarded under several different categories: community planning, dislocation aversion, and increased worker mobility, reflecting the three different levels of impact from the defense drawdown.[2]

Overview of the DCA Demonstration Evaluation

The Department of Labor contracted with Berkeley Planning Associates (BPA) to conduct an evaluation of the DCA Demonstration. The objectives of this evaluation, performed by BPA and its subcontractor, Social Policy Research Associates (SPR), are threefold: (1) to describe and document the implementation and short-term outcomes of the demonstration projects, as they relate to the specific problems faced in defense-related dislocations; (2) to identify exemplary approaches to the specific problems faced in defense-related dislocations; and (3) to identify the factors that contribute to or impede the success of various defense conversion approaches.

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[1] Section 325(d) of Title III of the Job Training Partnership Act provides funding for demonstration projects as part of the Defense Conversion Adjustment Program.

[2] Due to limited space, in this summary we only report findings from our observations of the projects using the two latter approaches.

The methodology for this evaluation emphasizes the collection of qualitative data using multiple site visits to each of the 19 demonstration projects, supplemented by limited quantitative data on the characteristics of participating workers and firms, services provided, and outcomes achieved by participating workers and firms. This article, based on mid-project findings reported in the evaluation's *Phase I Final Report,*[3] summarizes findings on how the projects have fared thus far, and lessons that can be learned from their experiences.

Evaluation Issues

The evaluation is based on detailed case studies of each project documenting project goals and objectives, the involvement of different project partners in developing and implementing the demonstration design, and progress to date in achieving project goals. These case studies have provided valuable information on projects' successes in implementing their intended designs as well as barriers to successful implementation.

Particularly challenging for this evaluation has been the assessment of project effectiveness using data on participant-level and firm-level outcomes. Since most of the projects are still in operation, final participant outcomes are not yet available. For projects assisting defense-dependent firms with defense conversion, the intended outcomes (e.g., increased non-defense sales and workforce stability or growth) may not be observable within the evaluation time-frame, particularly for firms at the beginning of the conversion process. Even where firm-level outcomes are available, it is not clear whether and how demonstration-related activities, such as workforce training and strategic planning assistance, have contributed to the achievement of these goals.

This study has not attempted to collect outcome data from comparison groups or sites to suggest what would have happened to participating workers or firms in the absence of services. In assessing project effectiveness, we have compared each project's performance to its own stated goals, as well as to the outcomes achieved by other demonstration projects testing similar approaches.

Averting Layoffs at Defense-Dependent Firms

Projects

Nine projects are testing dislocation aversion strategies. Figure 1 summarizes the dislocation aversion projects and their key features. Projects vary in the number of firms they are assisting, the size of participating firms, and the stage of participating firms in the conversion process. Some projects targeted firms early in the adjustment process and supported managers during the process of planning for conversion. Other projects targeted firms that had already developed strategic plans for conversion and were ready for workforce training.

Findings

A sequence of steps is necessary for successful conversion, including identifying firm strengths and weaknesses, developing a strategic plan for entering non-defense markets, and implementing the changes necessary to compete successfully in these markets. Projects that targeted firms early in the conversion process spent substantial amounts of staff time and project resources assisting management in conducting an objective assessment of their strengths and weaknesses and developing a strategic plan for conversion prior to workforce retraining. For these projects, workforce training sometimes grew out of the assessment process, when workers were asked to participate in assessing the strengths and weaknesses of their individual work units.

Projects that focused on improving worker skills often emphasized the importance of the skills needed for high performance workplaces. These skills include teamwork, communication, problem-solving, continuous improvement skills, process analysis and statistical process control. While these skills were perceived in all projects as being key to successful firm performance in commercial markets, projects were most successful:

- If workforce training was closely linked to furthering specific conversion goals at the firm level.
- If worker representatives had a voice in the design and oversight of training.
- If there were structured opportunities for workers to practice their new skills in the workplace during and after training.
- If the firm had identified measurable indicators of success at the firm or work-unit level
- If firms were given the autonomy they needed to choose a service plan that was appropriate, as long as the quality of the providers was monitored by the project administrator.

It is too early to draw conclusions about whether firms were able to avert layoffs as a result of the assistance they received. However, several of the participating firms were able to document improvements in productivity and cost-effectiveness measures and/or avoid anticipated layoffs during the first phase of the demonstration.

Increasing Worker Mobility

Projects

Nine projects are attempting to promote increased worker mobility for individuals dislocated as a result of layoffs among defense industry workers, military service personnel, and/or civilian Department of Defense employees at military facilities. Figure 2 summarizes the key features of these projects.

The worker mobility projects fall into three rather distinct categories: (1) those that seek to reemploy participants quickly without intensive retraining; (2) those that seek to prepare partici-

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[3] This report was submitted in draft to DOL in March 1995. The report consists of preliminary findings on the three defense conversion approaches (worker mobility, defense conversion, and community planning) in Volume I. Volumes II through IV contain detailed project profiles for each demonstration project, organized by approach. An executive summary will be available as a separately bound volume.

Figure 1 • An Overview of the Dislocation Aversion Projects

Grantee/Project Area	Strategy/Goal	Target Group	Key Features/Activities
International Association of Machinists and Aerospace Workers (IAM) Conversion Demonstration IAM Lodge 727 Los Angeles, California	• Assist defense-dependent firms to become more competitive • Assist in the reemployment of dislocated defense workers	• 3 small to medium-sized firms in Los Angeles area	• Provide consulting services to assist in conversion planning • Provide HPWO and occupational skills training • Develop and provide training to build electric car components • Develop job opportunities for participants
Long Island Defense Diversification Project New York State Department of Economic Development New York, New York	• Assist defense-dependent firms to become more competitive by promoting HPWO principles	• 9 small to medium-sized firms in Long Island area	• Assess firms' strengths and weaknesses • Provide HPWO skills training
Management Assistance and Technology Transfer Program St. Louis County Economic Council St. Louis, Missouri	• Facilitate development and implementation of commercial conversion plans for defense-dependent manufacturing firms	• 20 small to medium-sized firms in St. Louis area	• Support assessment of workforce skills and production systems • Support strategic planning • Support occupational and HPWO skills for workers
Massachusetts Strategic Skills Program Massachusetts Industrial Services Program Boston, Massachusetts	• Assist defense-dependent firms to become more competitive	• 12 small to medium-sized firms in Massachusetts area	• Occupational skills training • Other skills training (HPWO, team and communication skills, TQM, process analysis)
San Diego County Defense Conversion Adjustment Demonstration San Diego Consortium and Private Industry Council San Diego, California	• Assess business needs • Disseminate information to affected businesses • Assist defense workers find new jobs	• Defense-dependent businesses exploring conversion in San Diego	• Survey of local businesses to assess and address affected business needs • Conduct Business Roundtables to assist defense dependent firms consider conversion options • Deliver services to dislocated workers, including high tech entrepreneurial training and TQM skills training

Figure 1 continues

Figure 1 ▪ Continued

Organization/Local Area	Strategy/Goal	Target Group	Key Features/Activities
Sargent Controls Project Pima County Community Services Department Pima County, Arizona	▪ Assist in the conversion of Sargent Controls, producer of nuclear submarine valves	▪ Sargent Controls (employing about 400)	▪ Provided support to assess strengths and weaknesses ▪ Provided occupational, technical and other skills training to workers
Minnesota Defense Conversion Adjustment Demonstration Department of Jobs and Training St. Paul, Minnesota	▪ Assist in increasing the competitiveness of Alliant Techsystems, a producer of explosive devices	▪ Alliant Techsystems (employing about 4,000)	▪ Occupational skills training for machinists ▪ Workplace basic skills training ▪ Basic skills enhancement
The Hummer Project: A Dislocation Aversion Project Workforce Development Services South Bend, Indiana	▪ Assist in increasing the conversion, stabilization of AM General, producer of an all-terrain military vehicle.	▪ AM General (employing 1,500 workers) and several supplier firms	▪ Consulting services to support HPWO principles (AM General only) ▪ Workforce training on communications, team-building and process analysis (AM General and nine suppliers)
Workforce Protection Program Rhode Island Port Authority and Economic Development Corporation Providence, Rhode Island	▪ Assist in increasing the competitiveness of small defense-dependent firms	▪ 20 small to medium-sized defense firms in Rhode Island	▪ Occupational and technical skills training

Figure 2 ▪ An Overview of the Worker Mobility Projects

Grantee/Project Area	Strategy/Goal	Target Group	Key Features/Activities
Philadelphia Naval Base and Shipyard Complex Planning Project Pennsylvania Department of Labor and Industry Philadelphia, Pennsylvania	▪ Plan and coordinate a response to the drawdown of the Philadelphia Naval Base, scheduled to be complete in early 1996	▪ Several thousand at-risk and dislocated base workers	▪ Identify and review strategies to assist affected workers ▪ Create a database containing skills and characteristics of workers and needs of businesses ▪ Develop plans for an on-base transition center
Charleston Naval Complex Community Planning Project Charleston County Employment and Training Administration Charleston, South Carolina	▪ Plan and coordinate a response to the dislocations caused by the drawdown of the Charleston Naval Complex, scheduled to be complete in 1996.	▪ A small number of dislocated base workers to participate in pilot training programs	▪ Produce an economic profile of the Charleston metropolitan area ▪ Develop a coalition between economic development entities, educational institutions, and the job training and placement community ▪ Develop a plan for a "one-stop shop"
International Association of Machinists and Aerospace Workers (IAM) Conversion Demonstration IAM Lodge 727 Los Angeles, California	▪ Assist defense-dependent firms to become more competitive ▪ Assist in the reemployment of dislocated defense workers	▪ Dislocated defense industry production workers with experience with composite materials	▪ Provide consulting services to assist in conversion planning ▪ Provide HPWO and occupational skills training to workers in participating firms ▪ Develop and provide training to build electric car components ▪ Develop job opportunities for participants
San Diego County Defense Conversion Adjustment Demonstration San Diego Consortium and Private Industry Council San Diego, California	▪ Assess business needs ▪ Disseminate information to affected businesses ▪ Assist defense workers find new jobs	▪ Dislocated defense workers	▪ Survey of local businesses to assess and address affected business needs ▪ Conduct Business Roundtables to assist defense dependent firms consider conversion options ▪ Deliver services to dislocated workers, including high tech entrepreneurial training and TQM skills training

Figure 2 continues

Figure 2 ▪ Continued

Grantee/Project Area	Strategy/Goal	Target Group	Key Features/Activities
Center for Commercial Competitiveness State University of New York Binghampton, New York	▪ Assist defense workers to start up new businesses	▪ Dislocated defense workers with professional or technical skills	▪ Classroom training in self-directed teamwork and commercial competitiveness ▪ Support for project teams to develop new businesses or contract with local firms
Military Certification Project: A Worker Mobility Project University of Clemson Clemson, South Carolina	▪ Assist military personnel to become teachers in South Carolina	▪ Separating military officers	▪ Assistance in completing prerequisites for Clemson University's teacher certification program ▪ Assist in placing participants in paid internships
Project Earn: A Worker Mobility Project McDonnell Douglas Aerospace East Titusville, Florida	▪ Assist laid-off employees from McDonnell Douglas to find replacement jobs	▪ Production workers and managers laid off from McDonnell Douglas's Titusville facility after cancellation of Advanced Cruise Missile Program	▪ Basic readjustment services, including assessment, career counseling and job search assistance ▪ Short-term training to upgrade skills
Operation StepOut: A Worker Mobility Project Arizona Governor's Office for Women Tempe, Arizona	▪ Assist participants to transition to non-defense employers	▪ Women dislocated or at risk of dislocation from defense sector	▪ Assessment, career counseling, job search assistance services ▪ Seminar on gender issues ▪ Access to career networking group
Alternative Fuels Training Project: A Worker Mobility Project Texas Railroad Commission Dallas-Fort Worth, Texas	▪ Train and place dislocated defense workers in emerging high technology occupations	▪ Workers dislocated from Dallas-Fort Worth area defense contractors	▪ Support development of curriculum ▪ Provide skills training ▪ Assist in certification process ▪ Assist in placement of participants

pants for new careers in "niche" occupations (e.g., as teachers, alternative fuel technicians for public vehicle fleets, or production workers using composite materials); and (3) those that seek to support would-be entrepreneurs in starting new businesses or joint ventures in high-technology fields using skills and processes developed in the defense industry.

Findings

The projects *providing basic readjustment services and short-term skills enhancement training* are rather disappointing. Few of these projects identified new or innovative models of basic readjustment services tailored to the needs of dislocated defense workers. Because project planners in several projects had misjudged local labor market conditions, the limited services offered by these projects were often insufficient to meet the reemployment needs of project participants. Projects struggled to adapt or refine services after project start-up to correct these shortcomings. In addition, projects in this category that were not closely coordinated with local JTPA systems ran the risk of duplicating the services available from EDWAA or competing with the EDWAA system for clients or continuation funds.

The outcomes achieved by the projects emphasizing basic readjustment services were mixed. Although most projects appear to be meeting the placement rates specified in their proposals, the placements sometimes took longer than expected, were not in a training-related field, or were not at the desired wage level.

The projects *preparing dislocated defense workers for new careers* identified careers that they thought would be attractive to and appropriate for groups of dislocated defense workers. Using project partners with close organizational linkages to the targeted occupations or industries, they succeeded in developing high quality training programs in those fields. However, these projects have found it very difficult and time consuming to recruit appropriate participants to match to the available services. In addition, projects trying to place participants in emerging industries have found that the new jobs have not always been available when they were needed. It is too early to say whether these projects are helping participants find high quality jobs at the conclusion of training.

The projects *supporting new business start-ups or joint ventures with existing firms* are testing how high technology start-up firms can be used to stimulate economic growth by creating new jobs in the local economy. Both Round 1 projects in this category developed highly innovative and ambitious designs using linkages with existing businesses in innovative ways. One project appears to be particularly effective in achieving positive outcomes for participants, perhaps because it selected participants who already had strong business concepts and emphasized the "nuts and bolts" skills needed to achieve a successful business startup.

Conclusion

Like any major experiment, the DCA Demonstration has—even at this early stage—shown some successes and some failures. When the Department of Labor requested proposals for these grants three years ago, it deliberately invited applicants to "break the mold." Project designers responded by taking risks in setting goals, forming partnerships, selecting target groups, designing interventions, administering services, and monitoring progress.

Risk-taking leads to mistakes, and this demonstration includes its share of mistakes. But risk-taking also leads to new knowledge, new models, new lessons. The DCA Demonstration is succeeding in providing useful lessons on how to support economic conversion, whether or not the individual projects succeed in accomplishing each of their objectives.

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Deborah Kogan is Senior Social Scientist at Social Policy Research Associates (SPR) and co-principal investigator of the Evaluation of the Defense Conversion Adjustment Demonstration. She has played a key role in a number of national evaluations of federal employment and training programs sponsored by the U.S. Department of Labor, including a recent evaluation of the EDWAA program. She is also directing a study for the U.S. Department of Agriculture of a five-state demonstration project to test the feasibility of applying Food Stamp Employment and Training Program regulations to the JOBS program for AFDC recipients.

Editorial Commentary

Most economists agree with the Clinton Administration's assessment that economic growth has resumed in the 1990s but at a slower pace than in previous upswings. The International Monetary Fund supports this conclusion in terms of global economic conditions, predicting a gradual expansion from 3.8% in 1994 to 4.2% in 1996. The Mexican peso crisis and the falling U.S. dollar have led to cautions, however. But new trade agreements such as GATT have been considered positives in this picture of the future.

In fact *moderate growth* is viewed by some economists as having real virtue. Inflation is remaining low and forecasters propose that a 3% growth rate will lift Americans' after-tax income in real terms and reduce unemployment to an acceptable 6%. However, they acknowledge that military downsizing and continued recessions abroad could change these predictions. And it is significant that although corporate America spent an enormous amount on new equipment in the 1990s in order to become more efficient and profitable, *little job growth resulted.* Only 2.3% was spent on *expanding businesses.* A large portion of the increase in employment in the 1990s has been related to the manufacturing, installing or programming of the machinery and computers companies have been buying in record numbers, but not all of these workers were permanently retained. *Expansion has been less profitable in the context of international competition.*

On the side of a generally positive economic vision for the U.S. is the U.S. Census Bureau's 1994 report indicating that Americans were living longer, smoking less, spending more money on educational materials, owning fewer guns, divorcing less, and staying married longer. Infant mortality had dropped. Per capita income measured in constant 1987 dollars had increased. Disposable income had risen. The level of educational attainment had increased. But there was a dark side as well. Average hourly earnings measured in constant 1982 dollars had declined between 1980 to 1993. Median scores on Scholastic Assessment Tests had plummeted. The increase in Americans' expenditures on video and audio equipment and personal computers had dwarfed their expenditures on education.

Meanwhile, international competition had grown dramatically, particularly between the U.S., Europe and the Pacific Rim. Studies of economic performance in the early 1990s showed clearly that American manufacturers in general and in a wide range of industries, including many high technology industries, were losing ground to foreign competitors. Our share of world imports climbed; our share of world exports declined. At the same time, over the past two decades, the living standards of more than 80% of American families had dropped.

An important lesson about the new economic environment has been that industries focusing on intense knowledge bases, and industries achieving significant "economies of scale," have had a longer-term impact than others on technology performance in other economic sectors. Governments that have targeted such high-technology sectors for special support and development assistance have encouraged economic progress. Governments that have over-shielded major corporations from competition have created economic disincentives. In fast-growing economies, government and industry have worked as collaborative partners in developing critical industries facing foreign domination. *In nations with the best records of industrial development, government, labor and management pursue manufacturing excellence together, using a variety of policies and actions. They ensure that a high quality workforce is available through a competent, accountable education and training system. And they give serious attention and energy to the readjustment and reemployment of workers adversely affected by economic change.*

Commentary

Robert B. Reich
Secretary of Labor

Even though it has been a long time since the picture has been as bright as it is now for the average American worker, the experience of the "average" worker is becoming less and less relevant. Some workers are surging ahead, others are treading water, and still others are sinking fast — in the same economy, at the same time. *The state of the American workforce, in short, is divided.*

In the late 1960s, as my generation was joining the workforce, the vast majority of Americans were middle class, in reality as well as in perception. Their status and prospects differed only moderately from the average. In an astonishingly short time, the old middle class has splintered. The erosion of a sense of shared prospects poses what may be our nation's most critical challenge of the post-Cold War era. Reversing this erosion, giving *all* Americans a reason to believe once more that hard work will lead to a better life, must become a central policy objective.

Broad trends that have converged and accelerated since the middle 1970s have split the old middle class into three groups: an *underclass* largely trapped in central cities, increasingly isolated from the core economy; an *overclass* of those who are positioned to profitably ride the waves of change; and in between these the largest group, an *anxious class*, most of whom hold jobs but who are justifiably uneasy about their own standing and fearful for their children's futures. Despite the progress of the past year, this division still casts a shadow over the state of the American workforce. We can describe this picture in greater detail with the help of new data, much of it recently compiled by the Bureau of Labor Statistics.

Basic Causes

The fundamental fault line running through today's workforce is based on *education and skills.* Well-educated and skilled workers are prospering. Those whose skills are out of date or out of sync with industrial change anxiously contemplate their prospects. Those without education or skills drift further and further away from the economic mainstream. The notion that we are creating a bounty of bad jobs is a myth. Most new jobs are good jobs. The problem is that the jobs that remain for workers without skills or with the wrong skills are becoming grimmer.

Skills have always mattered, but they have not always been such potent determinants of economic destiny. As recently as 1979, a male college graduate earned 49% more than a similar man with only a high school diploma — a sizeable difference, to be sure, but not too large for the two to share the label "middle class." By 1992, however, the average male college graduate was earning 83% more than his high school graduate counterpart, and the notion of common prospects had faded considerably. The picture for women is similar, if slightly less stark. At every level of education and training the pattern holds: the higher the skill level, the higher the earnings. And the gap has been growing.

Not only the wages and benefits that workers can command, but also their chances for holding a job at all, are divided along lines linked to skills. This gap, too, is widening over time. In the 1970s, the average unemployment rate for people who had not completed high school was 7%. By the 1980s, this rate averaged 11%, and *in 1993 it was over 12%.* By contrast, the unemployment rate for workers with a college degree or better has held fairly steady at around *3%.* Over the most recent ten-year period for which data are available (1983 to 1993) the number of jobs in sectors that typically require higher levels of education has grown by an annual average of 2.8% while job growth in sectors requiring less education has been only 1%. This shift in favor of skills shows up not just in the U.S. but in other advanced countries.

In a seeming paradox of today's economic news, financial markets fret that unemployment is *too low to contain inflation*, even while eight million willing American workers remain jobless. Part of the answer to this apparent contradiction is that markets for highly skilled labor are becoming tight in many parts of the economy, creating the conditions that can kindle inflation worries. But millions of less-skilled workers remain idle or underemployed. This wasted workforce is walled off by skill barriers from the leading edges of the economy. The best way to expand the economy's capacity and lower the level of unemployment needed to bridle inflation is to dismantle these walls by *preparing underutilized workers for more productive work.*

What lies behind these widening disparities within the workforce? Manufacturing jobs were once the gateway to the middle class, even for workers who started off without high-level skills. While it is a myth that international trade has robbed America of its manufacturing industries, technological changes have diminished the role of labor, especially unskilled labor, in the modern factory. And global trade and investment surely have hastened these changes. Even within manufacturing industries, a rising share of value is added before the assembly line begins, and after goods are produced.

Labor unions have long helped shore up wages and benefits even for workers without high-level skills. But today only 11% of the private sector workforce is represented by a union. A revitalization of the labor movement would help reverse the erosion of the middle class.

The most striking change in the workplace has been the brash arrival of the computer. In 1984, about 25% of American workers used computers on the job. Last year almost 47% did so. And contrary to the belief that computer-literate youth are running circles around their technophobic elders, workers between ages 40 and 54 comprise the group most likely to work with computers. Even workplace communication has been transformed, as one in ten workers now uses electronic mail to communicate with colleagues around the corner or around the world.

But the computer revolution has deepened the division of the American workforce. Two-thirds of college graduates use computers at work, but only one-third of high school graduates, and fewer than one in ten high school dropouts. The vast majority of managerial, technical, and professional workers use computers. But people in lower-paying, lower-skill occupations use them far less frequently. The information highway promises to speed some people to desirable destinations, but it may be leaving others stranded in the high-tech version of inner-city ghettos. A recent study of census data found that fully 5% of America's households lack access to a telephone, the basic ticket of entry to the information web. Other data show that minority children are less likely to use computers at school or at home. As personal computers become standard equipment for learning at home, children who are disconnected from the system will fall further and further behind.

Ethnic Divisions in Rebuilding the Middle Class

Despite the issues cited, long-term data affirm the potential for building a new middle class. The skill-based divisions of today's workforce are in some ways more readily overcome than the divisions based on race and gender that have haunted America throughout our history.

However, the road to opportunity is often much rockier for people of color. Last month the national unemployment rate for black Americans was *over 11%,* more than double the rate for white Americans. Today black men hold only three out of every one hundred managerial, professional, and technical jobs. The median income for black males working full-time and full-year in 1992 was $22,400, just 72% of the median income for comparable white males. Hispanic Americans seeking to join the middle class have confronted similar obstacles. Their unemployment rate tops 10%, and their earnings have been steadily eroding. And Hispanic workers are significantly less likely than their white counterparts to receive health insurance on the job.

Closing these gaps requires a long, painful process of national growth and healing to which we must remain committed. Virtually every willing worker can expand his or her skills. Information technology itself promises to vastly increase the productivity of learning as it makes top-flight teaching tools more widely available. We already see emerging around us examples of sophisticated yet accessible work that can form the platform for a new middle class. Some of the most notable job growth has occurred among technicians who defy the traditional categories of the old economy. Their ranks are predicted to grow by nearly 40% over the next decade. Data released recently show that the most rapid job growth is in *high-paying occupations*, even within traditionally *low-paying industries.* This hints at the proliferation of new kinds of middle-class jobs throughout the economy.

The technician jobs that will sustain the core of the new middle class usually require some education beyond high school, but they do not always demand a four-year college degree. Degrees from community colleges are paying off, and their enrollments are rising. Men with community college degrees earn 26% more, on average, than men with only a high school diploma. Women who have graduated from community colleges earn 33% more than women with only a high school diploma.

Middle Class Revitalization

Skills clearly matter, and they can be learned. We have to combat the forces dividing America's workers with an armory of new approaches to lifelong learning. An additional 130,000 children each year can now be made ready to learn at school through Head Start. School systems throughout America have millions of dollars in new incentives to improve their performance. During the summer of 1994, some 120,000 disadvantaged youth combined jobs with classroom instruction. Over the next six years, almost half a million young Americans will be entering youth apprenticeships during the last two years of high school, many of them receiving special skill training beyond high school.

Starting in the fall of 1994, 20,000 young people will enter National Service, earning money that they can apply to a college education. The three and one-half million people who take out education loans each year now have the option of repaying their loans as a percentage of future income. Fifteen million working families with modest incomes are receiving tax relief. We have begun transforming the old unemployment insurance system into a *reemployment system*, insuring that in 1994 alone an additional 150,000 Americans who have lost their jobs will get the skills or the job search help they need to find new ones. We must also deliver on health security, or our mission of turning the anxious class into a new, more secure, more productive middle class cannot be completed.

American business has a crucial role to play in building a new middle class. Skills learned on the job, or in a work-related setting, tend to be especially well-tailored to the requirements of the workplace. New data on work-related training show that the impact of such training is of the same magnitude as more traditional schooling. Men and women who graduate only from high school, but who have received work-related training, earn more than people who have attended some college but who have not received any additional training, and almost as much as college graduates who lack additional work-based training.

Yet most companies are not yet doing enough training, and what training they do provide is not being directed to the workers who most need it. Among young college graduates, about 35% now receive work-related training. That is nearly double the rate for high school graduates and more than four times the rate for high school dropouts. The workers most likely to receive training are white, male, well-educated, and working in high-paying occupations. This imbalance serves only to harden the divisions within the workforce.

The payoff to work-based training, and the inadequacy and uneven distribution of such training, highlights the need for *a new social compact among American workers, business, and government.* Businesses need to do their part in this new compact by bringing *all* workers along on the route to prosperity, investing aggressively in their skills and making them partners in productivity. This new compact is an imperative not only of corporate citizenship but of firms' own long-term interests.

Achieving A Better Future

A constant theme of American history has been the challenge of forging unity out of diversity. We are at an important point once again in meeting this challenge. This time the deepest divisions are not based as much on race, national origin, or geography. They are based on the ability of individuals to make their way in an increasingly turbulent economy. The overclass is doing fine, but questioning its connection to the rest of America. The underclass is isolated in marginal enclaves walled off from hope. The anxious middle class is being pulled and stretched by the need to work two or more jobs to keep a family solvent, by uneasiness about health care, by the specter that today's job will disappear tomorrow, and by fears that their children will be denied the opportunity for a better life.

If unchecked, these divisions can corrode our society. Unlike the citizens of most other nations, Americans have always been bound together less by a shared past than by shared dreams of a better future. If we lose that common future, we lose the glue that holds our nation together. Nothing is more vital to fulfilling our nation's defining promise than preparing all Americans for meaningful, productive working lives. In this century's waning years, in the hopeful, fearful confusion of the Cold War's end, our most important mission is to restore hope to the anxious class and lift despair from the underclass, and to affirm the conviction that the American dream of broadly shared middle class prosperity still endures.

Editor's Note

The commentary above is excerpted from Secretary Reich's 1994 Labor Day speech delivered at the Center for National Policy in Washington, D.C.

Interviews

Editorial Introduction

In this issue of *Evaluation Forum* we are privileged to feature our first interview with a respected European expert. This extensive interview addresses some of the fundamental economic challenges facing all industrialized nations, and highlights the situation for countries in transition to political democracy and a market economy. This is a uniquely informative macro-perspective on economic restructuring and its implications.

In addition we are pleased to include our first interview with representatives of management and labor in a major U.S. multinational corporation — the aerospace giant, the Boeing Company. Faced with the necessity of unexpected layoffs in the 1990s, the company and its unions, working with federal and state agencies, have developed a model reemployment program to assist dislocated Boeing workers in a period of adjustment to economic change and the internationalization of markets.

An Interview with Salvatore Zecchini

Editor's Introduction

Given the emphasis in this issue of *Evaluation Forum* on industrial economies and their efforts to survive in a new competitive global marketplace, we are pleased to have an interview with Salvatore Zecchini, the Assistant Secretary-General of a strategically important international organization, the *Organization for Economic Cooperation and Development* (OECD) in Paris, France. Established in 1960, the OECD's mission has been to promote economic growth, sustainable employment, and a rising standard of living in member nations. Its membership includes all the major advanced industrial nations, currently twenty-four countries.

Mr. Zecchini is also Director of OECD's *Centre for Cooperation with Economies in Transition,* which offers assistance to Central and Eastern European nations, and the independent republics of the former Soviet Union, in their transition to market-based economies.

The Assistant Secretary-General received a Ph.D. in economics from the Wharton School of Finance in the United States, and is a former professor of economics in Italy. He subsequently served as economist for the Economic Research Department of Banca d'Italia. From 1984 through 1989 he was Executive Director of the International Monetary Fund. In 1989 he was named Special Counsellor for Economic Affairs at OECD, and began his tenure as Assistant Secretary-General and Director of the Centre in 1990.

Mr. Zecchini has had an impressive career, serving as economic advisor to the Prime Minister of Italy, the Minister of Foreign Affairs, the Minister of the Treasury, the Minister for Agriculture, and the Minister for the Coordination of Community Policies. He represented the Banca d'Italia in international bodies addressing economic issues in Europe, and participated in the technical meetings of the Deputies of the Group of Ten. He was also a member of Italy's delegation to the two technical negotiations for the establishment of the European Monetary System and European budget reform.

In addition, Mr. Zecchini has published numerous studies on corporate finance, European financial policies, the consequences of Italy's membership in the European Union, international economics, monetary and finance issues, and the transition from central planning to market economies.

Question: For Central and Eastern Europe, the transition to a market economy clearly represents a difficult historical passage. This is not unexpected given the magnitude of the economic, social and cultural changes occurring in these societies. How has the *Organization for Economic Cooperation and Development* (OECD) addressed the challenges involved in this transition?

Mr. Zecchini: In 1990, the OECD Council decided to create the *Centre for Co-operation with Economies in Transition* (CCET) to launch and manage a wide-ranging program of dialogue and cooperation with the transition countries. The goal of the OECD's cooperation has been to contribute towards the development of pluralist democracy and market-oriented economies by mobilizing the experience and expertise of the OECD secretariat and Member Countries. The cooperation takes a variety of forms, including 1) provision of advice on the design, implementation and monitoring of appropriate policies, 2) policy dialogue with the Organization and its Member Countries on the main economic issues related to the transformation of the economic system, and the integration of these reforming countries in the world economy, and 3) training activities.

With regard to the subject of this issue of *Evaluation Forum,* it is important to note that from its inception the CCET has given high priority to the human resource issues related to structural change in the transition countries. In particular, I am referring to education, social and labor market issues. In the framework of the CCET's work program for these areas, the OECD's

Directorate for Education, Employment, Labour and Social Affairs holds responsibility for provision of technical assistance. The work program is focused primarily on 1) improved monitoring of educational, labor market and social developments, and 2) design and implementation of an appropriate policy strategy that aims at helping to establish well-functioning labor markets, social safety nets and educational systems.

Specific reviews of education, labor market and social policy are the main instruments used to pursue these goals. In cooperation with the corresponding host country Ministries, these reviews survey and analyze the full range of available information on the recent developments in a sector. Drawing on this information, the current policy framework and institutions are examined with a view to offering a critique of the situation, highlighting positive developments while offering suggestions where performance falls short. To date, these reviews have focused on the four transition countries participating in the OECD's *Partners in Transition Program:* the Czech Republic, Hungary, Poland, and the Slovak Republic. This year we will add to the list, as the first education review of the Russian Federation is undertaken.

Besides the review process, the ongoing series of activities targets a range of technical and policy issues using a variety of approaches, including country-specific case studies, expert missions and seminars, and international conferences and workshops. The implementation of the market-oriented recommendations drawn from these initiatives is supported through training activities designed to reinforce the working capacity of host country institutions. The OECD is also contributing important statistical tools through the development of education and labor statistical databases that provide internationally comparable data series for several transition countries.

Question: In 1991, the OECD organized jointly with the International Labor Organization (ILO) a High-Level Conference on Labour and Social Implications of Structural Change in Central and Eastern Europe. The proceedings were subsequently published. Did this contribute a foundation for future OECD technical cooperation?

Mr. Zecchini: The High-Level Conference was a concrete and early manifestation of our concern for labor market and social issues in the transition countries. The main conclusions of this conference remain relevant to the situation today. Broadly speaking, three points are of particular relevance:

- *First,* during the transition an appropriate set of human resource policies can work to help address major social and labor market problems related to structural change — these policies can facilitate a smooth functioning of the labor market while providing the foundation for the social safety net, and the promotion of the social consensus for reform.
- *Secondly,* these policies can promote longer-term economic development through enhancement of human capital, and promotion of cooperative industrial systems.
- *Thirdly,* they can strengthen pluralistic democracy by improving the representation of the interests of the social partners.

The conference proceedings were published by the OECD in a volume entitled *Structural Change in Central and Eastern Europe: Labour Market and Social Policy Implications.* The first chapter of this book addresses key issues in the transition that remain central even as the transition has advanced. These include 1) sluggish growth in these economies, 2) privatization and enterprise restructuring, 3) a rise in unemployment and labor marginalization, 4) increased poverty, 5) widening economic disparities between social groups and between regions, and 6) international migration.

Although much has happened since the time of the conference, the issues it raised proved to be right on target. In some cases we are still struggling to solve them. Fortunately, there are many encouraging developments in terms of institutional and economic reform. The leading economies in transition have turned the corner and are once more experiencing economic growth.

Question: High unemployment has become a troubling feature of the labor market in most transition countries. Could you comment on unemployment trends and the underlying dynamics?

Mr. Zecchini: The first phases of transition to a market economy in the Central and Eastern European countries (CEECs) and NIS have brought about major changes in the economic and social fabric of each country, including widespread employment adjustments and, in most, a rapid increase in open unemployment. Although these adjustments are an inevitable consequence of the process of economic transformation, they are producing growing hardship for the population as a whole, and for certain vulnerable social groups in particular. Furthermore, unemployment and poverty have created pressures on state budgets due to increased outlays for unemployment benefits and social assistance. They are thus creating new constraints for the disinflationary policy strategy as well as for the reform of public expenditures.

In most of the CEECs, unemployment materialized in a wave, following the institution of market-oriented reforms. Already at the end of 1991, unemployment rates were close to 10% (or even above) in Bulgaria, Hungary, Poland and Slovakia. In these countries, unemployment rates continued to grow at a fast pace during 1992. The Czech Republic, which was the subject of a recent OECD labor market review, is a significant exception to this pattern. After initially experiencing a rise in unemployment (although at a lower pace than most CEECs), there was a significant decline in the number of job seekers in 1992, and a stabilization in the unemployment rate thereafter (around 3%).

The Russian Federation too has shown distinctive labor market patterns. In general, employment in Russia has been declining much more slowly than output. In the three years since 1991, employment is estimated to have dropped by roughly 4 million to under 70 million. Compared to most of the CEECs, unemployment remains fairly low, with estimates of the unemployment rate ranging from roughly 2% (based on administrative data on the registered unemployed) to about 6.5% (based on estimated Labour Force Survey updates) in the fourth quarter of 1994. As of October 1994, the population officially registered as being "out of employment" was 1.75 million. Recently unemployment has begun to rise and is likely to continue to do so, especially if the transition process gains momentum.

Unemployment rates by themselves, however, offer only a partial picture of the labor market slack during the transition process. Sizeable flows from employment to out-of-the-labor force have occurred. This is especially true where extensive use of soft dis-employment measures — such as early retirement and "easier" access to various kinds of disability benefits — was made in the early stages of the transition, and where most working pensioners were pushed out of the labor market. Flows to inactive status (rather than into unemployment) have also occurred among individuals of working age, especially in the Czech Republic and Hungary. In the latter, for example, the participation rate for the working age population dropped by some three percentage points during 1993. In Russia, there has been a substantial growth in underemployment and wage arrears, as well as a continuing decline in labor productivity.

In September 1993, the OECD organized a Technical Workshop on "The Persistence of Unemployment in Central and Eastern Europe." Evidence presented there suggests that *unemployment has grown in many cases more as a consequence of low rates of outflow into jobs, than of unusually high rates of inflow into unemployment.* Despite the massive employment adjustments in most countries of the region, monthly inflows into unemployment have been relatively contained, even when compared to those prevailing in low-unemployment OECD countries. Also, there have been significant flows that completely by-pass unemployment. Direct job-to-job shifts and flows out of the labor market have played an important role in the reallocation of labor.

Put another way, unemployment has been a rather stagnant pool, especially in the early stages of the transition. In most of the transition countries, once a worker has lost his or her job it is very difficult to obtain another position. Under these circumstances, unemployment is *highly persistent*, and in many cases the lack of job opportunities results in the job seeker leaving the labor market altogether instead of being reintegrated into a job.

As is the case in most high-unemployment OECD countries, the burden of unemployment is unevenly spread across the different social groups in transition countries. It has fallen disproportunately on the *young, unskilled and older workers*, and some *ethnic minorities*. Furthermore, even in a context of stable or declining numbers of job seekers, the average duration of unemployment has increased dramatically. *Many long-term unemployed have left the labor market.* These phenomena are signaling the difficulties now encountered by certain social groups, which should be the focus of more attention by labor market and social policy institutions.

The economic and social hardship of reforms also has a *geographical dimension*, which was the subject of a Technical Workshop organized by the OECD and the Institute for Advanced Studies in November 1994. In most of the transition countries, large urban centers have unemployment rates well below 10% and rather favorable ratios between unemployment and job offers, while rural areas and many mono-cultural industrial sites are suffering from unemployment rates above 20% and few job openings. Given the rigidity and tight supply in the housing market, these regional disparities cannot be easily overcome by geographical labor mobility. Rather they require, at least in the short term, specific efforts in the backward areas, and a redistribution of resources to them from wealthy areas.

Unemployment has risen and continues to grow in some areas. However, this must be contrasted with *ongoing reallocation of labor* and some *economic restructuring*. Many new jobs have been created although they are somewhat precarious, particularly those in small firms and in self-employment. Some of the newly created businesses are yielding good wages and benefits, but many do not and will not.

Question: What have been the main elements of CEEC and NIS human resource policy in the face of economic restructuring?

Mr. Zecchini: The transition countries have been quick to initiate development of human resource policies and programs corresponding to the requirements of a market economy. There have been significant successes in this regard, although further adjustments in the new policy framework or policy implementation processes will be required. Moreover, the task of restructuring elements carried over from the previous system has not been completed.

Labor market policy has been at the center of the reform efforts. Early in the reform process, transition countries enacted *new comprehensive employment laws* which are serving as the basis for labor market policy and programs. These laws generally affirm the rights and responsibilities of people in employment matters, including the choice of whether to work and of occupation. In many cases such laws borrowed from similar statutes of OECD Member Countries. Building on these employment laws, transition country labor market policies and programs have generally sought to achieve:

- Reduction in the level of unemployment.
- Decreased labor market segmentation and improved labor market

prospects for vulnerable groups in society.

- Promotion of occupational and industrial mobility, and delivery of basic income support for the unemployed during limited periods of job search.

Employment laws have provided for the establishment of *public employment services* charged with the administration of unemployment compensation, placement assistance and additional active labor market programs such as training and public works. In some cases, the public employment services were established as independent agencies. The development of these services has been the focus of substantial amounts of international assistance, including the technical cooperation activities of the OECD.

Across the transition countries, the structure of *social policy* is still undergoing substantial restructuring and/or development. Witness the fact that several countries have recently introduced *new social laws or policies* for which it is still too early to assess the effects. Given the wide range of issues, I will focus on three aspects of social policy that are closely tied to poverty issues: pensions, family allowances and social assistance.

In the old system, inefficiencies ensured high demand for labor. Employment was virtually guaranteed for those who could work, thereby ensuring income during one's working life, and a pension in the event of disability or retirement. As a result, social assistance targeted only a small minority of the population, such as the handicapped or orphans.

Today, pensions and family allowances serve as a primary means for delivering social protection. In reforming countries, restructuring of the pension system is required to ensure long-term viability, particularly in the face of low retirement ages and an erosion of the value of benefits due to inflation.

To combat low benefit levels, many strategies for reform aim to restrict pension eligibility while increasing the average payment size. The implementation of such strategies is fraught with political risks and consequently does not seem feasible over a short period. Family allowances vary, and in some cases are based on inappropriate per capita measures that do not take into account household economies of scale. Approaches to the provision of further social assistance have varied, depending in part on the *level of decentralization* in the system. In some cases, the lack of national norms has caused a wide variation in the availability and level of benefits. In the Russian Federation, for example, such assistance is primarily the responsibility of the local and regional governments.

The *education policies* of the transition countries need substantial and urgent reform as well. As stressed in several studies conducted by the OECD during the last three years, there is an urgent need for greater coherence between labor market and education policies. Education reviews carried out by the OECD in the former Czech and Slovak Republics, and Hungary and Poland, have identified the following common problems:

- The lack of long-term plans for the development of higher education, and the need to render the system more flexible in responding to the needs of a market economy.
- Problems relating to the capacity of educational institutions.
- The growing social differentiation, and the problems of identifying social needs.
- The quality of the teaching staff, and "brain drain" problems.
- The autonomy of institutions, the decision process, the legislative foundation, and the division of competencies within institutions.

In all cases, financial resource constraints are proving to be a major concern. Competition with other government priorities in the face of heavy budgetary pressures is constraining the modernization of education.

Generally, the system of training in the transition countries placed emphasis on enterprise-based programs. The transition has led to a substantial reduction in the number of training places available in state-owned enterprises, and the private sector has been unable so far to provide sufficient opportunities for initial and further education training. This comes at a time when there is a major need for retraining workers who have lost their jobs, or for training young entrants into the labor market.

Question: During the 1991 OECD-ILO conference, migration issues were raised as an area of possible future concern. How has this issue developed, and how do you see it evolving?

Mr. Zecchini: Despite the severe limitations imposed by the centrally-planned governments, considerable external migration flows have been an aspect of the socio-economic developments of central and eastern European countries during the past decades. The ongoing transition process has radically changed the nature, if not the magnitude, of migration flows.

Continuing *emigration* flows are likely to result from the labor market slack, especially in certain backward regions. Cross-border commuting has also emerged in regions on the border with the West. Evidence presented at a recent OECD conference on Regional Unemployment in Transition Countries suggests that this is directly related to the labor market conditions of the region of origin, and the existence of formal agreements between the countries of origin and destination, as is the case between the Czech Republic and Germany.

Official *in-migration* data suggest that there are increasing flows toward transition countries, due also to the return of former residents. However, official data may under-report inflows of foreigners in transit through some transition countries toward Western European countries, as is the case for Poland. The cooperation between transition countries and the OECD in the area of international migration had already started in 1991 in the framework of the *Continuous Reporting System of Migration.* This system is planned to further contribute to the improvement of information on the dimension of the in-migration phenomenon, on one hand, and the definition of suitable policies to cope with it, on the other.

Inter-regional migration is also an issue of great importance in all transition countries. As stressed before, reforms have brought about major regional disparities in the economic and labor market conditions of different regions. Indeed, labor migration flows seem to respond to differences in the economic conditions of regions. The major urban centers, and other regions with a diversified production base, have experienced consistent in-migration of labor in the last period. However, inter-regional migration flows have not increased in aggregate terms in all transition countries, due to the major rigidities in the housing market, and the lack of information regarding job opportunities.

Question: Each of the transition countries has entered the reform process in the context of unique experiences and conditions which will require varied policy responses. Beyond this, however, are there common themes that you have identified for enhancing human resource policy?

Mr. Zecchini: It is important to underline the importance of a lesson that we have learned in the OECD Member Countries. Experience from a wide range of countries has shown that *sound economic policy is the best base from which to promote employment.* As the recent *OECD Jobs Study* points out, a primary component of such a policy consists of an appropriate macroeconomic policy that includes sound public finances, price stability, and promotion of a sustainable balance of payments position. However, a sound macroeconomic policy by itself cannot guarantee sustained economic growth, particularly during the economic transition. Economic policy must address a broad range of structural impediments to growth, including those related to human resources. Let me give a few examples.

Problems in *policy coherence* are a common issue in transition countries, as in OECD Member Countries. In transition countries, OECD surveys have found particular problems in the linkages between unemployment benefits and the social assistance system, particularly concerning the long-term unemployed. As a consequence, in many countries a significant number of the long-term unemployed do not benefit from the placement and counseling services of the employment services. Many lose contact with the labor market. Other gaps in policy coherence can be found in the relationship between education and labor market policy, with the result that graduates of educational programs risk having an education that fits poorly with the skills sought in the labor market.

In terms of labor market policy, there is some evidence that many transition countries could benefit from *improved targeting of public programs.* Given the limited amount of resources available for these programs, and the uneven distribution of unemployment, it is most appropriate to focus on the most vulnerable groups, such as the long-term unemployed. Targeting might also take into account the geographic distribution of labor market hardship. Also, evidence from the OECD's review of the Czech labor market indicates that investing more resources in assisting the unemployed in their job searches, and in monitoring the job search efforts of the unemployed, leads to better results than other methods in term of job placements.

Many transition countries might benefit from the *simplification of the unemployment benefits system.* Often these systems involve complicated procedures and calculations that strain the administration, while at the same time delivering insufficient benefits. One option for simplification might be to introduce flat rate systems on a temporary basis, as in Poland. Another option for improving the effectiveness of unemployment benefit systems might be to improve the targeting of support measures by reducing benefits for those who voluntarily quit their jobs, and for new entrants to the job market.

Improved systems to *monitor performance, and provide feedback* to employment service offices, may also aid in raising the efficiency and effectiveness of labor market programs. Anecdotal evidence from some transition countries suggests that well-designed management information systems can contribute toward needed performance enhancements.

As regards social policy, *pensions* are of the greatest pressing financial concern. As mentioned earlier, the long-term viability and effectiveness of pension systems in most transition countries will require a tightening of eligibility criteria.

In the area of *education,* the effectiveness of the system should be enhanced by stressing the *linkages with the labor market.* One means for achieving this is to increase the involvement of the various stakeholders in the design and implementation of educational programs — that is, government representatives from non-education agencies, business representatives, and parents. More generally, education would benefit from improvements in *national standards.*

These examples do not constitute a comprehensive policy framework. However, they signal some of the policy components that most transition countries need to consider within the ongoing transition process.

Editor's Note

The interview with Mr. Zecchini was completed in February, 1995. The following OECD publications may be of interest to readers wishing to pursue further the issues covered in the interview. Again, CCET stands for the Centre for Co-operation with Economies in Transition.

Labor Market and Social Policy Issues:

Employment and Unemployment in Economies in Transition: Conceptual and Measurement Issues. Eurostat. CCET. Paris, 1993.

The Labour Market in Poland. CCET. Paris, 1993.

Structural Changes in Central and Eastern Europe: Labour Market and Social Policy Implications. A joint publication of the OECD and the ILO. Paris, 1993.

Current Labour Market Problems in Russia. General Distribution Document. CCET, 1989.

Review of the Labour Market in the Czech Republic. Paper presented at the ELSA Committee Meeting in Prague, December 1994.

Review of Labour Market and Social Policies of Hungary. Paper presented at the ELSA Committee Meeting in Budapest, October 1994.

Short-Term Economic Indicators — Transition Economies. Labour Market Indicators Annex, No. 4, 1994.

Unemployment in Transition Countries: Transient or Persistent. CCET, 1994.

The Regional Dimension of Unemployment in Transition Countries: A Challenge for Labour Market and Social Policies. Proceedings of the Technical Workshop on "Regional Unemployment in Central and Eastern Europe" jointly sponsored by the OECD's CCET in Paris and the Institute for Advanced Studies in Vienna, November 1994.

Education Issues

Review of Higher Education in the Czech and Slovak Federal Republics: Examiners' Report and Questions, 1992.

Review of Education Policy in Hungary: Examiners' Report and Questions, 1993.

Follow-Up Review of Higher Education in the Czech and Slovak Republics. Report to OECD's Education Committee, 1994.

Seminar I: Quality Assurance and Accreditation in Higher Education. General Distribution Document. CCET, 1994.

Seminar II: Mobility in Higher Education. General Distribution Document. CCET, 1994.

Seminar III: Research in Pedagogy. General Distribution Document. CCET, 1995.

An Interview with Gary K. Jackson and John E. Dryer

Introduction*

On April 17, 1995, the United States Secretary of Labor, Robert Reich, came to Washington State to meet with the co-directors of the IAM/Boeing Quality Through Training Program which Secretary Reich called a model of labor-management cooperation. "We are beginning to use this model around the country, and it's working," Secretary Reich said. "Labor and Management *can* work together, even when the news for workers is bad." The Secretary also brought a check for $4.5 million in support of the Boeing Reemployment Program.

Leading the Quality Through Training Program, John Dryer, Boeing Co-Director, and Gary Jackson, IAM Co-Director, work together with the support of a team of Administrators from both the company and the union to develop training opportunities that assist IAM-represented Boeing employees impacted by technology change, job combinations, and workforce reduction. The program is also proactive in developing programs for the career and personal development of IAM hourly employees at Boeing through a number of unique services.

The Quality Through Training Program (QTTP) has played an integral role in planning and obtaining the funding for the Boeing Reemployment program, which has two service centers offering a "one-stop shopping" approach to retraining and job placement services for displaced Boeing workers. The Boeing Reemployment Program is administered by the State Employment Security Department (ESD), and brings together The Boeing Company, the company's two major unions — the International Association of Machinists and Aerospace Workers (IAM & AW) and Seattle Professional Engineering Employees Association (SPEEA), local Private Industry Councils (PICs), a consortium of seventeen Community and Technical Colleges, and the QTTP in a broad-based drive to help dislocated workers and mitigate the effects of job loss.

The aerospace industry by its very nature experiences peaks and valleys of employment. Because of the competitive market in which aerospace companies operate, and the volatility of orders under government contracts, The Boeing Company has always experienced changes in the volume and characteristics of its workforce over time. This has been related to the general health of the economy, to trade relations, and to the state of technology. However, by the late 1980s Boeing was facing a new competitive environment that was considerably internationalized. The company was competing with subsidized aerospace designers and manufacturers in other countries. There were recessions in the industrialized nations. And defense contractors, including Boeing, were coping with the military downsizing that accompanied the end of the Cold War.

The specter of business losses that could result from the reduced numbers of orders and the cancellation or postponement of previously-committed orders from airlines, who were themselves experiencing a business downturn, brought about the need to reassign, relocate, or lay off unprecedented numbers of employees. In addition, because of the intensifying international competition from state-subsidized aerospace companies, Boeing has had to drastically pare production costs, exacerbating problems for workers.

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*We would like to convey our special thanks to Ellen Hewitt, a staff person in QTTP, who contributed substantially to this introduction.

Although employment at the company was at its peak in 1989, the IAM and the company were well aware of the forces that could affect employment conditions, if not the exact events that were to follow. Consequently, negotiated into the collective bargaining agreement that year was the new jointly-run Quality Through Training Program, established to develop training programs for IAM-represented employees impacted by the above-mentioned conditions in the workplace.

There were almost no layoffs during the period between 1983 and 1990 — a period of expanding business and high production for The Boeing Company. The problem then was building an adequate workforce to produce the company's airplanes.

Reductions in defense-contract work brought the first cloud on the horizon, resulting from the easing of the Cold War and the federal government's downsizing of military programs. This affected the Boeing Defense & Space Group. Then came substantial aircraft production cutbacks directly related to the decline in the commercial aircraft market worldwide. Boeing Commercial Aircraft Group had to resize as production schedules shrank. Since Washington State's economy was to a significant extent dependent on Boeing, the downsizing made necessary by these cutbacks also had important ripple effects on the hundreds of firms in the region that constituted Boeing's extensive supply and service chain.

By the end of 1994, Boeing employment had dropped 20,000 from the 1989 peak of 107,000 employees, as reported by Secretary Reich during his visit here. This included attrition due to resignations and retirements, as well as layoffs. According to Washington Employment Security Department figures, 8,000 employees were laid off during 1993 — the largest during any one year in the early 1990s.

The Quality Through Training Program built up its *Career and Personal Development Services* for both active and laid-off IAM-represented employees, to assist them in preparing for new career options. Funded under the 1989 and 1992 collective bargaining agreements by an amount equivalent to 10 cents per hour for each IAM-represented worker employed, with a guaranteed $10 million base, the Quality Through Training Program did much to help IAM-represented employees become reemployed by offering an education assistance program and opening "Horizons" learning centers offering advising, counseling, career exploration, and skills training. QTTP also saw the need to provide a placement function for employees.

In 1993, QTTP contracted with *Mainstream Access* and worked with *Boeing Outplacement* and the Washington State Employment Security Department (ESD) in a *Job Opportunities Program* to deliver services to IAM workers. The focus of the Job Opportunities Program was to provide the supportive environment and services needed to help IAM employees become reemployed as quickly as possible. Job clubs were formed, where employees with similar interests and goals met together with a job counselor on a regular basis. The job clubs also afforded the opportunity to learn interviewing and resumé writing skills. Job fairs, job and skill matching, and job placement services were included in the mix.

Services provided by ESD's local centers were also included, such as assistance with the Unemployment Insurance Claim process, and job search and job placement on-line through the Employment Service. ESD representatives were located on-site at the QTTP offices. Since QTTP was certified by the ESD to grant Commissioner-Approved Training under Title III of the Job Training Partnership Act — in fact it is the only private organization to enjoy that status — this program also provided the benefit of being able to draw unemployment insurance while going to school through QTTP.

The Job Opportunity Program gave rise to a new, expanded concept — one which brought wider participation from the community and provided a full range of benefits to all dislocated employees of The Boeing Company. IAM-represented employees still took the major "hit" from downsizing the workforce, but other areas of the workforce were also being affected. The "one stop center" concept was included in an application for federal funding of two major *Boeing Reemployment Centers* in the Puget Sound area.

John Dryer, Gary Jackson, and members of the Quality Through Training Program staff, along with representatives of the company, the IAM and SPEEA unions, the Employment Security Department, Private Industry Councils, and the State Board of Community and Technical Colleges formed a *Labor Management Committee* and started an intensive effort to apply for funding under the Job Training Partnership Act. Charles Wetmore and Della Curry of the QTTP staff led the team that put together the funding package. The application for funding featured the ESD as administrator for the program. This application was granted and an unprecedented $5 million was awarded to the project — the highest up to that date for any Washington State program.

The *Boeing Reemployment Program,* a comprehensive program delivering a full range of reemployment services at two one-stop, multi-service centers — a remarkable private/public partnership between The Boeing Company, its unions, and government agencies and institutions — was born.

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The interviewer had the opportunity to talk with the two QTTP co-directors in March 1995. The following interview is the result of this meeting. The interviewees are John Dryer and Gary Jackson.

Gary Jackson is Co-Director of the IAM/Boeing Quality Through Training Program, which is jointly sponsored by the International Association of Machinists and Aerospace Workers and The Boeing Company to address the training and employment needs of active and laid-off Boeing workers who have been affected by changes in the aerospace industry.

Mr. Jackson, an experimental electronics technician while at Boeing, held numerous Union positions as a Local Lodge officer prior to becoming a full-time staff person with District 751 of the International Association of Machinists and Aerospace Workers. He has served in the Union's Health and Benefits and Wage Determination offices, as well as Contract Negotiations. He has been involved with the Quality Through Training Program since its inception in 1989, first as a Joint Policy Board member and now as Co-Director.

John Dryer is the Chairman of the Labor-Management Committee involved with the Boeing Reemployment Program, and Co-Director of the IAM/Boeing Quality Through Training Program. A design engineer, Mr. Dryer was Director of Labor Relations at Boeing in Kansas prior to coming to the QTTP. He has served as a consultant on negotiation strategies for contract negotiations in both the public and private sector, and has lectured on labor relations at the University of Puget Sound.

Mr. Dryer has been intensely involved in the evolution of the Quality Through Training Program, providing guidance to the program in addressing the personal, training and career needs of workers. His emphasis on joint union/management sponsorship has resulted in a high level of acceptance of these programs by both Boeing and union management.

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Question: As the initial effort to assist the major segment of the Boeing workforce, both those needing to be assigned to new jobs within the company and those ultimately dislocated — is the model established by the Quality Through Training Program the core of the Boeing Reemployment Program? And what are the main elements of QTTP's program design?

Gary Jackson: The Quality Through Training Program came into being to provide IAM-represented employees of The Boeing Company with learning opportunities that can lead to career growth, provide job security, and retrain employees impacted by changes in the workplace due to technology change or job combinations. This concept of cooperation between company and union in order to provide important career and education opportunities is at the heart of all QTTP activities. Bringing the company, unions, educational institutions, Private Industry Councils, the Employment Security Department, and other federal and state agencies together in a cooperative effort to benefit employees is a natural outgrowth of this philosophy. In addition, the "one stop center" concept is a key feature of previous QTTP job placement activities, and provided the organizational framework for the Reemployment Program.

Our major issue at this time is the impact of company downsizing on our employees. QTTP offers *Career and Personal Development* programs for both active and laid-off IAM-represented employees of The Boeing Company. QTTP's support and leadership in regard to the Labor Management Committee and the Boeing Reemployment Centers has helped a great many laid-off employees "land on their feet" and, as Secretary Reich put it, "prove that there can be new work and new life after the pink slip."

Career and Personal Development programs include four full-scale advising and learning centers at this time: the *Advising and Learning Center* at our main offices in Tukwila, Washington; the *North Site Advising and Learning Center* in Everett, Washington; the Wichita, Kansas, *Advising and Learning Center;* and a new *QTTP/Boeing Advising and Learning Center* in Portland, Oregon. A fifth is due to open soon. Two of these locations also administer the QTTP *Education Assistance* program — which offers an annual benefit to active or laid-off IAM-represented employees of the company. Active IAM employees can receive up to $2,000 per calendar year for education and training at state-recognized institutions, and laid-off employees whose training needs do not fit the Boeing Reemployment Program guidelines for retraining can receive up to $2,500 per year for three years after layoff, beginning on the date of their layoff from the Company. These benefits are available to all IAM-represented hourly employees, regardless of their location.

QTTP's Career and Personal Development initiatives include a broad spectrum of career development and skills enhancement programs for employees. Through this program employees can meet with professional advisors to develop their own individualized career education plan, utilize career assessment tools, participate in on-site computer-based training, or be referred to other training/educational opportunities which match their skills and pace of learning. In addition, the program offers on-site courses in math, reading, writing, creative thinking, problem solving, presentation skills, and study skills. Tutors are available on-site. Community and technical colleges provide the professional advisors and adult basic educational instructors. *English as a Second Language* (ESL), and a recent addition, *American Sign Language* classes are available for IAM employees. ESL classes, offered in partnership with organizations throughout the company, are set up for both active and laid-off employees in several locations convenient to either their workplace or home.

QTTP's other two initiatives — providing assistance to IAM employees impacted by technology change and job combinations — address the training needs brought on by change in the workplace. This includes IAM-represented employees whose jobs are affected by technology change (defined in the collective bargaining agreement as technological improvement in "tools, methods, processes, equipment or materials") such as employees at the new *Chemical Process Line* and the *Calibration Lab.* For the new Chemical Process Line, self-paced video and computer instruction developed by QTTP in cooperation with *Boeing Training Organization* is located right at the workplace and a peer mentor training system is in place. Calibration Laboratory employees can access a sophisticated interactive electronics course cooperatively developed by QTTP and Boeing Training that incorporates the elements of an AA degree in electronics. Technology change retraining has been developed and delivered in a number of other locations in Washington, in Portland, Oregon, and in Wichita, Kansas.

Job combinations occur when the *Corporate Jobs Committee* agrees to combine two or more bargaining unit jobs. QTTP has a responsibility to identify what additional training needs may be required for the affected employees to do the new combined job. QTTP invites employees as subject matter experts and line managers in the areas where jobs were combined to participate in a training needs analysis. The requirements of the new job are scoped out through brainstorming techniques, then validated and verified by additional groups of subject matter experts. Finally, the skills list is given to Boeing Training for identification of the training courses required for each job level. The purpose of using this job task analysis is to gather data from the employees who actually do the work.

The Quality Through Training Program has shown that the union and the company, working together, can help to increase opportunities for Boeing workers and provide Boeing with a highly skilled workforce for a changing work environment.

Question: How was the Boeing Reemployment Program established and organized and how is it being funded?

John Dryer: The new Labor-Management Committee brought together representatives of a wider array of constituencies, and charged them with responsibility for a new program specifically targeted to *dislocated* Boeing workers across all divisions of the company. These representatives were to speak for an impressive group of stakeholders:

- The Boeing Company.
- The International Association of Machinists and Aerospace Workers.
- The IAM/Boeing Quality Through Training Program.
- The Seattle Professional Engineering Employees Association.
- The Washington State Employment Security Department.
- The State Board for Community and Technical Colleges.
- Several Private Industry Councils: Seattle/King County, Pierce County, and Snohomish County.
- The Region X office of the U.S. Department of Labor.

In early 1993, QTTP, leading the effort to obtain federal funding, contracted with the *Human Resources Development Institute* (HRDI) in Washington, D.C., an arm of the *AFL-CIO,* to assist with the program design and application. HRDI worked with the Labor-Management Committee as a facilitator to develop and submit a grant proposal to the U.S. Department of Labor for a National Reserve Grant under Job Training Partnership Act (JTPA) Title III, for services to Boeing workers meeting the eligibility criteria under the *Economic Dislocation and Worker Adjustment Assistance Act.*

The initial request was for $10.2 million for a new Boeing Reemployment Program for approximately 3,800 dislocated Boeing workers. The request was urgent, as existing budgets acquired through unprecedented leveraging of funds and in-kind contributions across a number of private and public sources were insufficient to meet the needs of the large numbers of workers dislocated in the 1990s. The new program redefined the *unemployment* system to a *reemployment system* and introduced a number of new concepts that met the current thinking of the Department of Labor: a public/private partnership; one-stop shopping for services; a consolidation of customer-focused services; market-driven training, and worker empowerment and accountability.

In reviewing the request, the U.S. Department of Labor awarded an immediate grant of $5 million and an option for requesting additional funding should the award prove inadequate to the need. Experienced in operating JTPA Title III and other employment and training programs, the Washington State Employment Security Department was to receive the National Reserve Grant on behalf of the Labor-Management Committee, and was assigned the role of administrator and operator of the program.

With the federal grant in hand, the Labor-Management Committee immediately set to work on opening two one-stop, multi-service Boeing Reemployment Centers, one in each of the major counties where Boeing dislocated workers live and work, and a satellite center in a third county. These centers involve the out-stationing of staff from Boeing Outplacement, both unions, the Washington Employment Security Department, Private Industry Councils, and the State Board for Community and Technical Colleges.

Secretary of Labor Reich pronounced the Boeing Reemployment Program a *model program* that he wanted to replicate elsewhere throughout the United States. On June 20, 1994, Vice President Al Gore and Secretary Reich presented the "Hammer Award" to the Boeing Re-employment Centers for "Putting Customers First."

The success of the Boeing Reemployment project was acknowledged in September 1994 when the U.S. Department of Labor awarded an additional $5.2 million to assist laid-off Boeing workers in Washington State. This ensured that the centers could continue to provide dislocated worker services to all laid-off Boeing workers, including an additional 1,000 employees. Of this requested amount, the largest proportion was for *longer-term retraining,* along with money earmarked for *supportive services* such as child care and transportation, *additional case management* for work-based learning and job development staff, and a full-time *project director* for the program.

The additional funding received on April 17, 1995, adds another $4.45 million — just in time to meet the needs of employees who will be impacted by approximately 6,000 more layoffs announced by Boeing for 1995, and bringing the total grant to *$14.65 million.*

Looking at all the resources supporting the Boeing Reemployment Program, we see an inventive combination of public/private funds and programs to service dislocated workers. In terms of funding, the program is utilizing special federal funds, regular federal program dollars, and funds associated with a new state legislative initiative that has expanded training slots in the state's community and technical college system. Regarding programs and related support, the Program is bringing together federal, state, and sub-state programs; personnel in community and technical colleges; facilities, equipment and staff contributed by The Boeing Company; the IAM/Boeing Quality Through Training Program, IAM and SPEEA volunteer representatives, and other Boeing programs.

To date, over 12,000 employees have utilized Reemployment Center outplacement services. Approximately 5,580 Boeing employees have obtained employment, and 3,365 employees are enrolled in JTPA retraining programs.

Question: We have been hearing a great deal about European models of collaboration between government, business, and labor, related to the current U.S. efforts to increase cooperation among these different constituencies. While this kind of partnership has been more traditional in Western Europe, these three groups have often behaved in an adversarial manner in the United States. How difficult has it been to develop this kind of partnership for Boeing workers?

Gary Jackson: Clearly it has been a greater challenge to develop a government/business/labor partnership in the Reemployment Program than it was to coordinate resources in the IAM/Boeing Quality Through Training Program. The Reemployment Program brings together many more diverse, but well-established organizational entities. Associated clusters of stakeholders had to be brought together around reasonably common purposes and goals for our workers. Accommodating the various cultures, policies, and practices of these groups has required a great deal of trust, commitment, communication, and sometimes negotiation.

The partnership involved accommodation and a willingness to cooperate in areas where organizations might be accustomed to having full discretion and authority. Many strong organizations have been involved. In my opinion, the partnership has been an outstanding success.

The Boeing Reemployment Program represents a significant human resource and reemployment effort involving a large multinational corporation — and key labor unions — and three levels of government. The program is also unusual in its commitment to keep communication open with employees, elected officials, business and labor communities, and others invested in the program, concerning the program's progress.

Question: Who has oversight responsibilities regarding the Boeing Reemployment Program, and how are its results to be judged?

John Dryer: Because of the multiple funding streams and programs for this new effort — and the fact that differing expectations and formal regulations exist among them regarding the evaluation of performance — there is no one source or method of assessment for the entire program. Nevertheless, oversight responsibilities are given strong attention by the Labor-Management Committee and the program's administrator.

The use of Title III funds and a National Reserve Grant require compliance with federally-mandated monitoring and evaluation requirements. Although no net impact study of EDWAA has been conducted at the national level, the Department of Labor did contract with a competent research firm to study EDWAA implementation. The latter may serve as a useful model for studying coordination and service delivery in the Boeing program

The use of state funds for increased community and technical college opportunities for dislocated workers, which involves a set-aside for Boeing workers, will require evaluation activities consistent with the evaluation plan developed by the State's *Workforce Education and Training Coordinating Board*, which calls for a study of both the implementation and the legislative intent behind this funding, and a study of outcomes for participants, employers and the community college system.

The Labor-Management Committee has selected a set of outcome measures and has established quantitative goals for monitoring the Reemployment Program, such as "entered employment rate," average wage at entered employment," "cost per participant," and "cost per entered employment." In addition the Committee is interested in requesting private/public funds to conduct a study of the program's overall efficiency and effectiveness.

On a human level, the fact that so many former Boeing employees are receiving retraining and have found employment through the program, at a rate of pay equivalent to what they earned at Boeing, constitutes the highest measure of success. This program has demonstrated that a cooperative partnership approach to dealing with dislocated workers can and does work.

Evaluation Issues and Activities

At the International Level

Editorial Introduction

This portion of Issue #11 emphasizes economic reform and restructuring issues in the European Union and the former Soviet Union. These are issues facing all industrialized nations, even though to varying extent, in the new international economy. They are issues about which American employment and training professionals need to remain informed.

Economic Reform in the European Union

Editorial Introduction

In the midst of negotiations to form a 12-member European Union (EU), the definition of "Europe" has grown increasingly elusive. The eligibility requirements for membership in the European Community (EC) have reflected that confusion. The Maastricht Treaty of 1991 proposed that "any European State whose systems of Governance are founded on the principle of democracy may apply to become members of the Union." But the concept *democracy* was not spelled out precisely. The organization of free elections, the practice of the rule of law, and respect for civil and human rights were assumed to underly this concept. But member countries were also expected to develop stable market economies based on private entrepreneurship. These twin intentions complicated the issue of eligibility since countries varied considerably in the extent to which they had applied these abstract concepts.

Beyond that, the gradual enlargement of the EU, however inevitable, has remained controversial politically and economically. A significant memorandum submitted to the European Council in the early 1990s by the three Benelux countries stressed that membership for the smaller countries could change the nature and form of the European Community, might distort the basic objectives of the founder nations, and would likely erode the position and role of the smaller members. France has taken the position, for example, that the EU must first consolidate its own internal development so that enlargement does not have a destabilizing effect on European unity.

The issue of EU enlargement is only one of many difficult issues faced by the leaders of this important experiment in transnational integration. However, the increased consolidation of Europe has substantial economic implications for the rest of the world, since it will vastly expand intra-European trade and expand the EU's access to global markets. And the EU's growing regional cooperation agreements with surrounding non-EU nations will play a significant role in creating a larger European economic structure. Already European voters participate in the election of the European Parliament. There is already a European Council of Ministers, a European Council, a European Commission, and a European Court of Justice. The *Single European Act* of 1986 supported the development of a common market for goods, labor, capital and services. *The Treaty on European Union* in 1991 strengthened political and monetary ties.

Within this larger framework, the Organization for Economic Cooperation and Development (OECD) has played a critical advisory role in providing cross-national data and policy analyses on a range of issues confronted by the most advanced industrial nations, including the EU. The OECD was established in Paris in 1961 to promote the following impressive goals:

- To achieve the highest sustainable economic growth and employment, and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy.
- To contribute to sound economic expansion in member as well as non-member countries in the process of economic development.
- To contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original member countries of the OECD were the world's major industrialized nations — eighteen nations in Western Europe, and the U.S.and Canada. Although less industrialized, Turkey was also a member. Later Japan, Finland, Australia, New Zealand and Mexico were added. The Commission of the European Communities now participates in the OECD's studies and other projects, and OECD has extended its work to encompass economic issues in Central and Eastern Europe, and the republics of the former Soviet Union.

In this series of articles we look at labor market issues in the European Union, and again focus the microscope on the new employment and training initiative in Great Britain. In the process, we rely on a number of analyses such as those carried out by the OECD.

The OECD's Employment Study

In 1992 the ministers of the countries with membership in the Organization for Economic Cooperation and Development requested a literature search and major study addressing key issues in several broad areas: macroeconomic policy, trade, technology, wage formation, labor adjustment, education and training, and benefit systems and taxation. OECD's response to this mandate is reported in two volumes: 1) *The OECD Jobs Study: Facts, Analysis, and Strategies*, and a background volume 2) *The OECD Jobs Study: Evidence and Explanations*. In this article we review the first of these companion reports.

The emphasis in this international study is on *unemployment*, the most troublesome aspect of capitalist economies. This focus is consistent with the OECD's mission to contribute expert opinion and the results of research to the efforts of industrialized nations to 1) achieve prosperity and 2) maintain their ability to be innovative in coping with an increasingly integrated and competitive global economy.

The major recommendation in the OECD report is that nations must *embrace change*, rather than slow its momentum or offer too much protection to activities that have not adapted successfully to the significant changes occurring in the world. Strategies that *promote adjustments to change* and *enhance social cohesion* while such adjustments are being made, are viewed as the route postindustrial societies must take if they are to provide the level of life quality they have traditionally valued for their citizens.

Facts and Assumptions

According to the report, 35 million people were unemployed in OECD countries in 1994 — *8.5% of the OECD labor force*. Another 15 million were thought to have given up looking for work, or had needed to accept a part-time job. *A third of young workers* in some of these countries had no job. Only a portion of this unemployment was *cyclical*. Much of it was attrributed to *structural factors*. Most of this structural unemployment was considered by the OECD analysts to be the result of dissonance between pressures on economic systems to adapt to global economic change, and their willingness and ability to do so.

These analysts made the assumption that the OECD economies were *not flexible enough* in coping with new technologies and trade challenges, and therefore were relying too heavily on methods that were protectionist, that sought to restrict competition. And they believed that these nations *had placed too little emphasis on developing new products and new processes, new kinds of workforces and workplaces, and new ways of creating jobs.*

The Nature of Unemployment

The number of unemployed in OECD countries *tripled* within a single decade, between 1972 and 1982. An easing of the prolonged period of economic decline of the late '70s and early '80s was reduced only slightly by subsequent economic progress, and then rose sharply again after 1990, according to the report. However, the upward trend in unemployment was more severe in the European Community (EC) and in Oceania (Australia and New Zealand) — 10-11% in 1994, as compared with approximately 7% in the U.S. at that time. Unemployment stabilized at 2-4% in the European Free Trade Association (EFTA) countries — Austria, Finland, Iceland, Norway, Sweden, Switzerland and Leichtenstein — until 1990 when it rose rapidly to almost 8% in 1994. Japan's 1994 rate was 3%, in the context of 1-3% throughout the post WWII period.

The report indicates that *young people* and *women* were most affected by unemployment. Austria and Germany, with strong apprenticeship systems, were exceptions to the high youth unemployment rates elsewhere. In Italy, Spain and Finland more than 30% of young people were unemployed. Women had higher unemployment rates than men in the EC, except for the United Kingdom. In most other OECD nations, unemployment rates were higher for men. *Regional differences* occurred more in Europe than in the U.S. *Age* was another factor.

There was a striking difference in *long-term unemployment rates*. In the European Community, 40% of the unemployed were unemployed long-term compared with 15% in EFTA and 11% in North America (U.S. and Canada). In several EC countries more than two out of every three *unemployed older workers* were unemployed long-term. In general, the OECD statistics suggest that EC countries have a greater rehiring/reemployment problem than other member nations, given the correlation between the low rates of flow back into the labor force and the high incidence of long-term unemployment. In the U.S. and Canada, workers have a greater risk of becoming unemployed but a better chance of reemployment.

Changes in the Size and Composition of the Labor Force

The working-age population in all OECD countries is growing more slowly than previously, the report points out. North America and Oceania have experienced a fairly rapid decline, but the EC, EFTA and Japan have experienced a greater decline overall. However, the size of the working-age population participating in the workforce grew significantly to 75% in North America, Oceania and EFTA, remaining largely unchanged over the past thirty years in the EC countries (67%).

Higher enrollments and retention rates in education spelled a decline in the labor participation of young people, while early-retirement plans and disability pensions reduced the number of older workers. The report concludes that these developments had the effect of infusing some labor forces with more highly qualified labor market entrants.

Job Growth

Growth in employment has been strongest in North America and Oceania, the report says, and weakest in the EC and EFTA, with Japan in between.

The EC's slow job growth rate is felt to be related to its slower population growth and the lack of increase in the proportion of its population in the workforce. Job growth has occurred predominantly in the service sector in all OECD countries. Agricultural employment declined from 14% in 1970 to 77% in 1994. Industrial employment decreased from 40% in 1970 to under 30% in 1992. The share of OECD employment in the service sector rose from less than 50% in 1970 to approximately 65% in 1992. Most new jobs in the 1980s were in financial services, insurance and business services, and community and personal services.

The growth in international trade and technology are likely responsible, according to the report, trade having grown faster than the Gross National Product. Most member countries' trade has been with other OECD nations. Their exports to other countries have tended to have a relatively high skill content in contrast to their imports, which are most frequently labor-intensive raw material and manufacturing products.

The largest OECD countries, with large domestic markets, have spurred the greatest amount of high-technology manufacturing, but high-tech production has become a viable option for the smaller nations as well. For example, Ireland, Australia, Finland and Norway have been quite successful in the high-tech area, in addition to Japan.

In thirteen OECD nations, non-farm *self-employment* has grown faster than overall job growth, particularly in the UK. *Part-time employment* has increased as a share of total employment in all OECD countries, with women accounting for most of the increase. *Temporary employment* has not appeared to increase except in France and Spain where there has been a deregulation of work contracts. Two-thirds of the job growth in the EC and EFTA since the 1970s has taken place in the *public sector* in contrast to the U.S. and Japan whose increase in jobs has occurred mainly in the *private sector.* However, public sector employment growth slowed in Europe in the 1980s, and the growth in private sector employment has increased.

Wages in Employment

The OECD report reminds us that "the process of wage determination is strongly influenced by labour market pressures, social perceptions, legislation, and industrial relations systems, which all affect the evolution of real wages and wage differentials." Wage shares in national income, the report says, decreased to below 1970 levels following the 1979 oil-price crisis. At the same time, *wage differentials between low vs. high-skilled workers widened in the English-speaking countries,* while EC differentials remained relatively unchanged. In fact, low pay was more prevalent in the U.S. than in other OECD countries. In the '90s one-fourth of all full-time workers in the U.S. earned less than two-thirds of median earnings, compared with one-tenth in Australia and one-fifth in the EC. *In 1990 almost one-fifth of all full-time U.S. workers had earnings at or below the official poverty level.* This is in the context of a general movement of job growth from unskilled to more highly skilled jobs.

Implications for Employment Policy

The analysts preparing the report on the Jobs Study view the unemployment scenario with concern. Furthermore they feel that the debate over its causes has been seriously flawed. A number of myths have been reinforced — such as that technology increases unemployment, that imports from low-wage countries depress wages and produce unemployment, and that the intensity of global competition is to blame. The evidence developed over the past four decades would suggest, they say, that none of these factors is the primary cause of rising unemployment. *The problem is that each causal theory leads to a different policy conclusion, whether the theory is warranted or not.*

Again, these analysts look for the main cause in the gap between the need for these countries to adjust to global changes affecting economic systems, and their capacity and willingness to adjust. This gap was created, they insist, by rigid even if well-meaning economic, labor market and social policies that had the unintended effect of decreasing the ability of economies to adapt to change.

They ask us to review history beginning in the mid-1960s. Essentially, everything was coming up roses for all OECD countries in terms of stability, growth and trade. But by the middle of the 1960s economic performance had begun to decline and inflation to rise. This produced an uneasy economic environment. *Exchange rates* became less predictable with the breakdown of the system of fixed rates. In the 1980s *the deregulation movement* regarding financial and product markets enhanced efficiency while accelerating change. These and related trends made it more difficult for economies to adapt.

The challenge of adjustment was made stronger by continuing rapid technological change, particularly in information technology, and by the internationalization of economic activity. Just at this juncture, when more flexible economies were sorely needed, *protective social policies* extending social benefits were introduced. The assumption is that these protective policies made these economies more rigid.

Within this general history, the U.S. experience was somewhat novel. Protective labor market and social policies were less extensive, labor markets more flexible, and job growth was occurring mainly in the *private* sector. Many jobs were high skill and high wage. Many were low skill and low pay. Workers without skills had no option but to accept the latter because of the low level of social support. On the other hand, these workers might have been worse off with a more rigid economy that precluded any job at all.

Both the widespread unemployment in other OECD countries, and the dichotomy in the kinds of jobs available in the U.S., were thought to stem from the failure to adapt to the trends emerging over previous decades. *Managerial skills, the organization of workplaces,* *general productivity* and *workforce preparation* had not kept up with a more technologically advanced economy. While a lack of adjustment meant more low paying jobs in the U.S., it meant greater unemployment in the EC. The development of a low-paying job sector in EC countries had been prevented by practices such as state-imposed or union-negotiated wage/income floors and employment protections.

Preserving Social Objectives

Although the main policy message in the report is that the solution to high unemployment is the restoration of economies' and societies' capacity to adapt to change, the report's sub-theme is that this restoration must not come at the expense of an abandonment of social goals. To satisfy such restoration while preserving protectionist values has been a formidable task.

The analysts propose that the key is to *reform social policies* such that they no longer have negative economic side-effects. They do not see such reform impossible to achieve, if policy experts will 1) study the spectrum of social policies implemented over the past three decades, 2) assess to what extent they may have crippled economies' adjustment capabilities, and 3) analyze what strategies may be feasible for removing such disincentives without dismantling desirable social protections. The research and analysis already completed should, they say, provide a useful framework for such reform. This framework is summarized in the second volume of the Jobs Study.

Some Conclusions

The OECD report focuses on *cyclical* as well as *structural* unemployment in drawing conclusions about how member nations should approach their major task. Therefore their ultimate recommendations involve the macroeconomic environment as well as job creation and workforce preparation — that is, they consider that both macroeconomic and structural policies are needed.

Macroeconomic Policies

The report proposes that the macroeconomic environment influences an economy's ability to create viable jobs in response to change. Certain ingredients should be part of macroeconomic policy, the analysts suggest, if that environment is to have the right effect:

- *Sufficiently high levels of national saving and investment:* Since the mid-1970s, national savings and investment as a share of national income have declined significantly in OECD countries, particularly in Europe.
- *Price stability and low rates of inflation:* Employers need to receive "undistorted price signals from the markets" if there are to be effective structural adjustments.
- *Budgetary efficiency and high-quality public sector spending and taxation:* Boosting economic growth at the cost of higher inflation should be avoided, the analysts point out, since the subsequent need to tighten could result in lower average growth over a number of years.

The report recommends an integration of *structural and macroeconomic policies,* since structural reforms, it states, will not work well in an unstable macroeconomic environment. On the other hand, macroeconomic policy is more likely to be effective if structural policies prevent inflexibility and allow resources to be used most profitably. Structural change in good economic times is less painful, but the need for such change is not as evident and is therefore more difficult to rationalize. But when economic demand is weak, structural reforms can involve worker dislocation with little job creation elsewhere to absorb those workers, and this effect can reduce political support for change. The report therefore recommends the simultaneous implementation of structural and macroeconomic reforms.

The proof of the effectiveness of these reforms for workers, the analysts say, is in the creation of more new jobs.

Where Job Creation Is Most Likely to Occur

The following predictions and recommendations are made in the report:

- New jobs must be generated by the *private sector,* given government budget deficits and resistance to tax increases in member nations.
- Many new jobs will have increasingly *high knowledge requirements,* particularly those involving tradable goods, related to the need to improve productivity in innovative businesses that have the ability to use technology effectively.
- Many new jobs will likely be *low-productivity, low-wage jobs,* which may help absorb the significant numbers of low-skilled unemployed. The report cautions, however, that tax concessions and/or employment subsidies supporting the creation of low-wage jobs should be avoided, while policies that inhibit low-wage job creation should also be resisted due to the high unemployment rates.

Clearly these predictions and suggestions involve a fine balancing act between two important concerns: 1) the general undesirability of deliberately creating low-wage jobs, and 2) the desirability of creating jobs for unemployed workers lacking the skills required by high-productivity, high-wage firms.

Technological Change

The report claims that technology, historically, has generated more worker earnings than displaced workers. Japan's shift to high-tech industries, for example, led to a 4% increase in manufacturing employment in the 1970s and 1980s. The EC experienced a 20% decrease in manufacturing employment, associated with an emphasis on lower-wage, lower-technology industries.

Critical to the positive relationship between technological change and job creation is effective *absorption, application and diffusion of new technologies*, such as current strides in information technology. *Government subsidies* to firms tend to discourage this kind of innovation. *Pooling resources* to promote basic research and the application of new technologies, particularly those with the higher risks, is recommended as an alternative strategy.

Small Business Entrepreneurship

The report encourages support for "dynamic entrepreneurship" in the form of removing regulatory barriers to new and expanding private sector businesses. Currently government resources, such as protective subsidies, are targeted to large firms. Small business development requires support for the following, according to the OECD analysts: *workforce preparation; adequate physical infrastructure; modern telecommunications; networks of small firms; and improved access to and use of sources of managerial advice, technological expertise and research.* Governments should assist small businesses in their development, they suggest, through seed, venture and equity capital, and the financing of debt.

The Role of the Social Safety Net

The OECD analysts reassert that some of the policies intended to preserve equity have had negative side-effects for economies. An example is *disincentives to hiring.* The non-wage labor costs borne by employers, such as social security contributions and taxes, represent a large proportion of the cost of labor, particularly in Europe. Governments are becoming serious now about reducing social spending as a way to reduce labor costs and encourage hiring.

Shifting the tax base from payroll to other taxes is one alternative. The report suggests cutting social contributions by employers and employees in a way that favors the hiring of low-wage, unskilled labor, such as *eliminating ceilings on employer contribution rates and reducing low-skilled workers' income taxes. Widening wage differentials* is another option, since there is evidence this speeds employment growth. However, the analysts recognize that none of these strategies are simple to implement.

For instance, the down side of widening wage differentials is that if these become too great, many with low incomes will fall into poverty. In Europe and Scandinavia, widening differentials are generally unacceptable in terms of the commitment to equity. Nevertheless, the report stresses the need to *revisit the issue of safety net protections,* giving more emphasis to "the market-clearing role of wages," and to consider new ways to express equity values.

Many European countries have strong employment protection legislation, which can reduce hiring and lead to the use of temporary work contracts. Long-term work contracts encourage investment in training and skills upgrading, which then increase hiring. But finding the right balance between worker protections and hiring has proven to be very difficult.

The analysts suggest the following as important ideas for consideration in increasing hiring:

- The development of rules to prevent major firms from devising barriers to entry.
- The establishment of rules that prohibit cartels, while allowing desirable forms of cooperation among firms.
- International cooperation in monitoring the behavior of firms involved in international competition.

Strategies Benefiting Workers and Their Families

The report claims that the typical OECD country spends 2-3% of its GNP on labor market strategies such as passive methods for reducing unemployment (example: unemployment insurance), but they have not shifted much of their resources to active strategies (example: public employment services). The report supports a reconsideration of resource use.

However, on the basis of research evidence, *the report is critical of training programs intended to serve large, diverse groups of unemployed — i.e. programs that are not carefully targeted.* It also questions job creation strategies that involve subsidized hires. Instead it recommends the involvement of all stakeholders in developing more effective methods for reducing unemployment — employers, unions, educational institutions, and local governments.

In terms of *education and training,* the report again looks to the research evidence:

- Preschool and early childhood development programs are important strategies for providing a foundation conducive to the pursuit of life-long learning opportunities.
- Curricula and teaching methods need to be individualized to meet the learning needs of underachievers and potential school dropouts, if they are to acquire workforce skills.
- A better balance is needed between post-secondary education, and technical and advanced occupational training.
- New forms of apprenticeship and work-based learning options are needed as jobs demand multi-skilled workers with general competencies.
- On-the-job, employer-sponsored training should be increased through innovations that will encourage employer investment in training.
- More effective strategies need to be developed to prevent families from falling into poverty due to the tendency for high unemployment benefits to decrease workers' incentives for increasing their hours of work or their investment in training.

The OECD analysts propose that *an integration of tax and benefit systems* may work best, achieved through a negative income tax or an income tax credit strategy. However they acknowledge that while this approach may reduce "the poverty trap," it may not raise worker incentives.

Overall Policy Recommendations

The report explains the need and basis for the recommendations advanced.

> More than ever since World War II, today's unemployment is causing damage in ways that cannot be measured by the sheer numbers. High unemployment creates insecurity and resistance to organisational and technical change. Long-term unemployment lowers self-esteem, is demotivating and self-reinforcing, and is associated with health problems. The rise in youth unemployment means that many young people are losing skills or employability. Groups in society that have never before faced a high risk of unemployment, such as white collar workers, are losing jobs, with all the personal and societal costs that implies in terms of lost potential and lost investment.

The broad goals of the recommendations flowing from the Jobs Study are these: to enhance the ability of economies to adjust and adapt, and to increase their capacity to innovate. Their major policy suggestions, excerpted from the OECD report are presented in Figure 1.

Editor's Note

For readers interested in keeping informed about employment and related issues in the OECD countries, the extensive *OECD Catalogue of Publications* can be obtained at no cost from the OECD Publications and Information Center at 2001 L St. N.W., Suite 700, Washington, D.C.

Figure 1 ■ Major Policy Suggestions in the OECD Report

- Set macroeconomic policy such that it will both encourage growth . . . and make it sustainable.
- Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
- Increase flexibility of working-time . . . voluntarily sought by workers and employers.
- Nurture an entrepreneurial climate by eliminating impediments to . . . the creation and expansion of enterprises.
- Make wage and labor costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels. . . .
- Reform employment security provisions that inhibit the expansion of employment in the private sector.
- Strengthen the emphasis on active labor market policies and reinforce their effectiveness.
- Improve labor force skills and competences through wide-ranging changes in education and training systems.
- Reform unemployment and related benefit systems . . . such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labor markets.

The Persistence of Unemployment in the Postindustrial Era

The Economics Department of the Organization for Economic Cooperation and Development (OECD) in Paris publishes a semi-annual journal, *OECD Economic Studies.* In this article we review two articles in the Winter 1993 issue. The first is by Jorgen Elmeskov and Maitland MacFarlan, "Unemployment Persistence." The second is "Interpreting Unemployment: The Role of Labour-Force Participation" by Elmeskov and Karl Pichelman.

Elmeskov and MacFarlan

The most worriesome characteristic of unemployment in most OECD countries in the 1990s, the authors propose, is its tendency to continue close to the level experienced during the worst economic times even in good economic times. This has been the outstanding attribute of the four unemployment cycles since 1966. The European Union (EU) rate, for example, rose from 6% to 10% during the economic declines of the early 1980s, and did not go below 8% in 1990. The authors seek explanations for this trend.

Studying the research evidence, two alternative explanations emerge. Persistent unemployment appears to be related to 1) changes in the deeper *structural* influences that determine the demand for and the supply of labor — changes that have increased cyclical unemployment rates, and 2) the tendency for high *cyclical* unemployment to create *structural* unemployment.

The authors' thesis is that the traditional distinction between cyclical and structural unemployment is dimming in the context of two trends: the tendency for unemployment related to cyclical unemployment forces to develop into longer-term structural unemployment, and the tendency for the economy's structural characteristics to influence the cyclical aspects of economic activity. Indicators used to describe unemployment rate trends suggest that the unemployment rate required to stabilize wage inflation has risen, that vacant jobs are filled with greater difficulty than before, and that the use of physical production capacity is reaching a threshold leading to a mismatch between jobs and available sources of labor. Overall, OECD structural unemployment rose steadily throughout the 1970s and early 1980s, declining somewhat in the early 1990s. The authors claim, however, that this general pattern veils important differences across OECD countries and regions.

To study basic causes and the reasons for differences across OECD countries, the authors utilize a particular analytical framework to explore the phenomenon of rising unemployment. The framework gives attention to three key relationships: the demand for labor; the nature of wage-setting; and the labor supply.

These relationships are considered to affect the important *interrelationship between cyclical and structural unemployment.* Applying a statistical model, the authors empirically test some of the major theories explaining persistent unemployment in the OECD countries. At either end of the continuum of potential causes are 1) a rise in natural (cyclical) unemployment, and 2) slow adjustment to economic change (a structural cause). The analysts come to a rather nebulous conclusion that neither theory is fully correct! This conclusion actually has important implications for economic policy, such as those suggested in Figure 1.

The authors make it clear that the problem of persistent unemployment is quite complex, since there are likely multiple causes. Long periods of cyclical unemployment can dissove into structural unemployment. At the same time, a common set of policies may be effective, they say, in reducing both cyclical and structural problems. For example, structural alternatives may be effective in reducing both the natural rate of unemployment and slow adjustment to change — such as policies supporting *worker mobility.*

Figure 1 ▪ Theories and Policy Alternatives

Theories Explaining Persistent Unemployment	**Policy Alternatives**	
	Microeconomic Options	**Macroeconomic Options**
▪ Rising natural rate of unemployment ▪ Slow adjustment to economic change	▪ Reform directed to reversing or offsetting the factors causing the rise in and persistence of unemployment. ▪ Reduction of employment protections. ▪ Reform directed to improving the regional and occupational mobility of the unemployed.	▪ Policies seeking to expand the economy. ▪ Activist policies.

On the other hand, *reducing employment protections* may be an efficient option for speeding adjustment to change but may do little to reduce cyclical unemployment. *Expansionary macroeconomic policies* may have no influence on persistent unemployment due to cyclical factors. *Slow adjustment* may have only a minimal effect on the natural rate of unemployment. *Activist policies* that attempt to fine-tune the economy may be counterproductive if they lead to a neglect of structural forces. *Automatic stabilizers* would seem to be important in preventing sharp economic ups and downs, but these may also cause a rise in cyclical unemployment which then destabilizes the economy.

The message is that there are considerable policy risks in misdiagnosing the causes of persistent high unemployment, and in relying only on one strategy. The authors suspect that placing major policy emphasis on *structural reforms* may be the most effective decision — particularly reforms that *improve the skills of the unemployed and offer them incentives to re-enter the labor force.*

Emeskov and Pichelman

This article on the role of labor force participation in persistent unemployment is more understandable by non-economists, and likely more useful to employment and training professionals. It focuses on *the relationship between labor force participation and reported unemployment.* The point the authors wish to impress on readers is that the measurement of unemployment lacks a clear-cut distinction between *unemployment* and *nonparticipation in the labor force.* This, they say, continually leads to policy confusion.

The relationship in question is likely to change, the authors suggest, on the basis of a number of influences: the demographic composition of the workforce, the extent of coverage and the generousness of income support systems, and other incentives affecting the decision to join or leave the labor force. Low unemployment could mean that an excess supply of labor is being moved toward nonparticipation, which masks the true extent of unemployment.

Trends in Labor Force Participation

Participation rates have continually risen since 1970 in all OECD countries due almost entirely to the increase in *female* participation. The authors credit the gradual shift in *cultural and social norms and attitudes* with this change, but the change has also been supported by the increasing availability of publicly-financed day care institutions in many OECD countries. The authors feel *the reform of tax systems,* particularly reforms that made the individual rather than the family the basic tax unit, may have been another factor. However, long-term trends in participation rates have varied across geographical areas. For example, male participation rates have declined over the past twenty years in almost all European countries. In North America and Japan they have been stable.

An analysis of the OECD data used in studying the relationship between participation and unemployment suggests that the "hidden component" of unemployment may increase as *measured* ("open") unemployment increases. There is little evidence in the data that countries with low levels or increases in measured unemployment exhibit these conditions at the expense of lower levels of participation, and differences in measured and hidden unemployment across OECD countries may, the authors surmise, be larger than the data reveal.

The authors view data on "discouraged workers" as an important resource in understanding the dynamics. This group represents a subset of a larger group of people who have stopped searching actively for employment because they have concluded that no viable jobs exist. Although "discouraged worker" definitions vary across member countries, making an analysis of the data difficult, over time these data support the authors' conclusion from their own analyses, namely that official unemployment and discouraged worker rates are positively correlated — with the exception of Japan. *The long-run relationship between unemployment and labor force participation seems to be negative.* Again, however, there are different tradeoffs between these phenomena for different countries. Countries with low unemployment, such as Japan, tend to have high participation rates. Countries with high unemployment, such as Spain, tend to have low participation rates.

Fluctuations in Unemployment

Using changes in the average annual unemployment rate as a measure of fluctations in unemployment over business cycles, the authors find that unemployment fluctuations — i.e. variability in unemployment — are greater in North America, the UK, Spain and Ireland than in Japan, Austria, Switzerland and some of the Scandinavian countries. The authors attribute differences in unemployment variability to interaction between 1) employment and 2) unemployment and nonparticipation.

Acknowledging data inadequacies, they take a look at cyclical fluctuations in output ("volatility"), which they propose may lead in different ways to different degrees of variation in employment across countries, and may ultimately generate differing unemployment conditions. They find that countries respond differentially to "demand shocks, the degree of exposure to autonomous supply shocks, the sectoral composition of output, and the presence of automatic stabilizers."

A traditional explanation for the relative stability of employment, the authors conclude, is "labour hoarding," or *the tendency in economic downturns for firms to reduce hours of work before laying off workers*. Another variable is *employment protection legislation*, and incentives embedded in unemployment benefit systems. These influence economic adjustment costs and as a result affect employment flexibility. *Variations in self-employment* are also an influence. The authors point out that as the volatility of self-employment drops below that of wage and salary employment, a generally high proportion of self-employment (within overall employment) tends to reduce the latter's cyclical variability. This is an important finding since self-employment is growing faster in OECD countries than overall non-agricultural employment.

Labor Force Sensitivity

The analysts also look at the *sensitivity of the labor force to cyclical labor market conditions*. In doing so they study two phenomena:

1. The "elasticity" of labor force "trend deviations" in employment — that is, a measure of labor force responsiveness, or the extent to which the effect of fluctuations in cyclical employment on unemployment are softened by what the authors define as "procyclical variations" in the labor force.

   Conclusions from the analysis: Elasticity varies widely across countries. France has almost no short-run labor force response to cyclical swings in employment, whereas in Japan these ups and downs have a significant effect.

2. The "elasticity" of labor force participation rates.

   Conclusions from the analysis: In all OECD countries, other than Germany and France, total participation rates are significantly affected by employment rates. And the elasticity of participation rates with respect to employment opportunities is higher for females than for males, and higher for youth and older workers. This is consistent with the fact that the larger proportion of workforces in OECD countries are women, and they are overrepresented in the dislocated worker population.

Unemployment Utilized as a Socio-Economic Measure

The forces affecting and explaining cyclical fluctuations in unemployment offer important insights to those interested in better social and economic indicators. The authors define three major roles for unemployment in this respect:

- Unemployment as a measure of under-utilization of labor.
- Unemployment as an indicator of social hardship.
- Unemployment as a determinant of wage pressure.

A number of implications identified by the authors are noteworthy. If expanding output produces a virile employment response at the same time the labor force stays the same, unemployment tends to fall strongly with rising input — but *potential output* increases as a result of increasing *actual output,* if rising productivity leads to rising employment which in turn increases the labor force. This is why countries with a responsive labor force and productivity can expand longer when coming out of an economic down cycle prior to inflationary pressures building sufficiently to require corrective measures. In this sense, "cyclical fluctuations in productivity and cyclical labour-force variations — and not measured unemployment — are relevant in gauging the full extent of under-utilisation of labour and the associated output loss during a slowdown."

Using unemployment as a measure of social hardship may fall victim to the same malady. The authors claim that changes in measured unemployment *underrepresent changes in gainful employment and earned income.* Furthermore, these changes do not reveal the amount of economic hardship caused by cyclical downturns. Unemployment benefits clearly reduce such hardship, therefore the hardship is greater for labor force non-participants since they are not officially employed. In countries where unemployment benefits are reduced substantially as a spell of unemployment elongates, the labor force tends to respond more to changes in employment.

As an indicator of wage pressure, it is the authors' interpretation of their data analysis that unemployment rates are more useful in explaining wage increases than labor force participation rates. This may be due to the fact that different groups of workers react differently to changes in employment. Workers in their prime ages are assumed to influence wage determination more than others. Also, workers with longer spells of unemployment influences wages less than others.

Overall Conclusions

The authors comment on the evidence produced in analyzing data and on the unsolved mysteries that remain (see Figure 2). Two explanations for the mysteries are possible, according to the OECD analysts:

1. The relationship described above, between labor force responsiveness and unemployment may occur if a country has experienced predominantly negative shocks over recent decades.
2. The persistence of unemployment may be greater following an upward shock to the unemployment rate than following a downward shock.

However, *the degree of labor force responsiveness does not appear related to trends in or levels of labor force participation.* Participation rates tend to return to their underlying trends while unemployment rates do not. It is no surprise that the analysts conclude that the complex interactions between unemployment trends and economic cycles will require further research!

Editor's Note

Emeskov is in the Economic Prospects Division of the OECD Economics Department. Pichelman is in the Institute for Advanced Studies in Vienna, Austria. For other publications of interest, please see:

Barro, R. "The Persistence of Unemployment," in *American Economic Review.* Papers and proceedings, 1988.

Bertola, G. "Job Security, Employment and Wages," in *European Economic Review,* 34, 1990.

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Figure 2 • Evidence and Remaining Mysteries

Evidence	Remaining Mysteries
Cross-country differences are typical for trends and cycles in unemployment and labor force participation across OECD countries, but these differences cannot be attributed to different participation rates. Unemployment rates are only a partial reflection of cross-country differences in trends and levels of employment.	Countries with volatile unemployment rates tend to have larger increases in unemployment over long periods than countries with unemployment that is more cyclically stable. Since labor force responsiveness is a major influence on unemployment volatility, there is a relationship between responsiveness and the increase in and level of unemployment. This does not seem consistent with the fact that unemployment tends to return quickly to a stable natural rate of unemployment following an economic shock.

Labor Issues in European Consolidation

This short article briefly summarizes a 1993 book published by The Brookings Institution, *Labor and An Integrated Europe*. Edited by three Brookings economists, Lloyd Ulman, Barry Eichengreen, and William T. Dickens, the book provides an important framework for understanding the evolution of thinking about a single market for the European Union, the changes proposed to reach such a goal, and the probable effects of this consolidation for Europe and other countries. We confine our attention to the first chapter, by the editors, on some of the implications of consolidation for the labor force and labor market.

Some Useful History

The Maastricht Treaty of 1991 was to remake the European economy. European currencies were to be replaced with the "ecu," a common currency for all European Union (EU) countries. A European central bank was to take precedence over the existing banks of member nations. Free trade and free movement of workers across national boundaries within the EU were to herald a new era. Of the changes to be achieved, by far the greatest, according to the editors of the Brookings book, was the *transformation of the European labor market*. Workers were to be free to seek and accept employment in any part of the EU.

The ambitious intentions in the Treaty represented enormous challenges for governments, employers and workers. The editors point to these three as some of the most difficult to meet:

1. **Competition among differing national systems of workforce preparation and social welfare.**
   Question: Will the integration process result in *uniform* systems of industrial and business relationships and social welfare, through negotiations among "major institutional actors in national labor markets," or will competition among these national systems simply increase and become divisive?
2. **Changes in the location and composition of production, and their effect on employment.**
   Questions: Will the integration process alter the traditional segmentation of European internal labor markets by reorganizing labor market sectors and regions across the EU, the purpose being to permit firms anywhere within the EU that specialize in particular products and services to locate together to utilize concentrations of resources and pursue economies of scale and scope — or will there be resistance to the relocation required in developing a comprehensive overhaul of economic activities? Will European workers, traditionally resistant to movement even to new regions within their own countries, be mobile enough to supply these new points of resource consolidation and economic activity with the labor needed for such reorganization?
3. **Potential intensification of economic competition between the EU and other countries.**
   Question: Given the prediction by experts that European integration will increase the productivity of member nations and their overall competitiveness, will the EU penetrate outside markets previously dominated by others and limit the access of other countries to the EC's market, with negative consequences for the U.S. and other nations, particularly Eastern and Central Europe and the former Soviet Union?

The Evolution of European Integration

The 1957 *Treaty of Rome* moved a large number of European nations in the direction of freeing up import duties and quota restrictions on international trade. But this did not translate to much progress in integrating markets for services, capital or labor. In the 1970s, the nations of Europe were preoccupied with domestic problems and integration efforts slowed. High internal unemployment and low economic productivity consumed their intellectual and political energies. But the reality of rising unemployment and continuing lackluster productivity renewed European interest in the reorganization of resources and labor forces, under the assumption that *excessive intra-nation regulation was largely to blame.*

The editors report that the 1987 *Single European Act* was expected to establish a common market for products, capital and labor by 1992. Physical and technical restrictions on international economic activities were finally to end. The Act required European Community members to 1) remove trade barriers, and 2) eliminate domestic policies that seemed to inhibit intra-EC competition — that is, to develop a truly integrated market for capital and labor as well as for products and services. However, there were serious questions about the potential for some countries within the EC to erode others' competitive edge, or to seek out cheap labor in another EC nation leading to more unemployment. Consequently in 1989 a *Social Charter* was established which guaranteed *minimum standards of compensation and welfare* throughout the EC, through mechanisms such as EC-wide labor and management institutions.

Unions

Analyses indicate, the editors say, that market integration in the EC spawns both *centralizing* tendencies and *decentralization*, as has been the case in the U.S. In the U.S. the creation of an integrated market across states increased centralized collective bargaining as unions advocated for more uniform wages and labor costs. Later there has been a decentralization movement in which unions have lost membership. The EU is not likely to experience as strong a decentralization tendency, the editors suggest, because of the traditional strength of European "employers' associations, mandatory works council elections, effective deterrents to strike breaking, the representation of unions in public administration and on labor tribunals, and the legal restriction of certain benefits to union members."

Worker Participation in Management

The Social Charter proposed that workers be infused into management decisions. This action was thought to strengthen employer associations and unions if it were *initiated* by employers. However, it was acknowledged that increased worker participation sometimes eroded union power if initiated in the context of weak unions. Both employers and unions have problems with this component of the Charter. German, Belgian, Dutch and Danish workers, for instance, have supported employee information, consultation and participation because there is a common employer-employee commitment to the application of high standards to low-standard EU countries. On the other hand, French labor has not supported this part of the Charter.

Some experts writing in the Brookings book recommend industrial relations systems which do not restrict or unduly limit worker participation and labor-management cooperation. There is some agreement that *centralizing tendencies* will ultimately dominate over "national differences in industrial relations traditions and institutions, in union organizational strength, and in union attitudes concerning the desirability of uniform EU-wide labor standards.

Other analysts in the book make the important point that a significant condition for successful economic competition is "long-term employment relationships that encourage investments in training skilled and versatile workers." They look to the German industrial relations system as a model for a unified Europe that is economically viable.

Worker Mobility and Protection

A major question about EU integration in the minds of the analysts writing in the Brookings volume is *whether pension and health benefits reduce needed worker mobility.* In the U.S., workers with health problems find it difficult to change jobs because of the potential loss of health coverage. In Europe, health coverage mandated by national governments remove this barrier to the movement of labor. The research seems to confirm that *national social security mandates* appear to increase mobility. So if this is the case, the lower mobility in the EU must, the experts suppose, be due to other factors, such as historical and cultural differences.

According to the book's editors, removing barriers to labor mobility will require a common policy regarding workers migrating into the EU from other countries. There will be strong pressure, they say, to negotiate an EU-wide compromise between "rotation policies [Germany, as an example] and permanent immigration restrictions [as for example, in Sweden]." They conclude that the rotation approach is most feasible, inasmuch as an immigration policy that is too restrictive could increase mismatches between skills and job, leading to more unemployment.

The Effects of European Integration on Other Countries

Although the book's experts do not see a significant negative economic effect for the U.S. in the integration of European economic activity, they are concerned that emerging Eastern European nations could suffer considerably from restrictive EU immigration policies and a lack of access to Western European export markets. If economic restructuring and dislocation concentrates in regional pockets of high unemployment, this could lead the EU to adopt protective measures that would be damaging to Eastern Europe and the former Soviet Union. The latter, the analysts say, would be counterproductive for Western Europe in the long run.

Political Economy of "Borrowing"

Issue #9 of *Evaluation Forum* featured a series of articles on the new employment and training system adopted by the United Kingdom (UK) under Prime Minister Thatcher — the *Training and Employment Council* (TEC) system. This new initiative privatized the government's effort to provide educational, occupational training and employment services to workers considered in need of a range of assistance. The series of articles included an explanation of the elaborate evaluation system designed to study the implementation and performance of the TEC system.

This article analyzes some of the underlying features of the U.S. and U.K. approach to investment in employment and training. It is based on a Brookings Institution book published in 1993 and edited by David Finegold, Laurel McFarland and William Richardson, *Something Borrowed, Something Learned: The Transatlantic Market in Education and Training Reform.* Finegold is a political scientist and education specialist who was involved in the development of the TEC system and its evaluation strategy as a faculty member of Warwick University in the UK, and is currently at the Rand Corporation in California. McFarland is an economist who was at the Brookings Institution when the book was written. Richardson is a senior research fellow at the Centre for Education and Industry at the University of Warwick.

The Theme of the Book

The editors reveal their interesting anthropological theme in the introduction to the book. They begin with the premise that education and training policy in the US and Great Britain converged in the late 1980s, both countries becoming more dependent on each other's ideas. They claim that *extensive borrowing, reshaping and application of each other's employment and training ideas took place in the 1980s,* highlighting the influence of JTPA on the British system. Their analysis of the reasons for this borrowing and its implications for policy is tightly packed, a well-organized and clearly-written sorting out of major influences and effects which ties their conclusions closely to expert opinion and empirical evidence.

The economic context of the analysis is two-fold. Their major emphasis is on *general economic change in the postindustrial period.* Such change, they say, has been the main influence on contemporary employment and training reform in all advanced industrial nations. They point to the integration of world markets, to technological change, and to increasing anxiety about sustained economic progress as characteristics which differentiate this period from the continuing economic growth and relative stability that defined the period between World War II and the oil crisis of 1973, and constituted a stimulus for reform. But they do not ignore important US borrowing from Western Europe. Their conclusion is that such transnational borrowing will likely increase in the future, as the world's academic and political communities become increasingly internationalized due to growing economic competition and greater interdependence among industrialized economies.

The second significant focus of the book is on *differences between US and British reforms, and those of these countries' main international competitors.* In this respect, the editors are interested in the "shared context of relative economic decline" — that is, the structural features of the two economies that have discouraged the adoption of high-skill, high-performance strategies, and the comparatively low levels of education and training provided by both. But they see important differences between the US and Britain as well, that tilt the US further than the UK toward high-skill enterprises.

In 1976, Britain's prime minister criticized the UK's employment and training system for failing to respond adequately to the needs of industry, and launched a series of reforms. The 1983 report *A Nation At Risk* served a similar purpose in the US, and was subsequently supported by *Workforce 2000* reports in 1987 and 1990, and by *Investing in People* in 1989. Faced with declining affluence, the two countries' emphasis on skills gaps, and the quality and quantity of outputs from their employment and training systems, was a strong energizer for change. At the same time, pressures for educational change were endemic throughout Europe — even in Japan and South Korea — reinforcing these change efforts.

Common Characteristics, But Differences as Well

More generally, the editors see *common economic forces driving employment and training reform in all industrialized nations over the 1980s.* Rapid technological change and the internationalization of capital generated more intense political scrutiny of employment and training systems — the adequacy of the skills they produced, and their overall efficiency. Under such scrutiny, the US and the UK displayed common characteristics: *declining competitiveness in world markets and low skill demands by employers; a lack of cooperative strategies and institutions for sharing the knowledge and cost required to develop and implement high-skills programs; and high drop-out rates in secondary education and low participation in postsecondary education and training.*

The two countries also share a common view of government's role in solving such problems, the editors suggest, such as the emphasis on *voluntarism* (allowing the market to stimulate the provision of training) and *weak corporate-government arrangements.* Added to all these similarities are historical linquistic, cultural and governmental commonalities that were strengthened in the 1980s by the political ideologies of Reagan and Thatcher, which stressed the need to free market forces from unnecessary government control, cut taxes, reduce union influence, and increase consumer choice in education and training.

These shared attributes are not the full story, however. In the US, the editors propose, higher education is seen as an investment most families and individuals should be willing to make; in the UK it is viewed as a right of citizenship, therefore the government underwrites tuition for the smaller group of students involved. Also, the larger size and the more complex nature of the American underclass creates unique problems. *The editors view the stronger role permitted the central government in the UK in reforming education, training and employment systems as the most significant difference between the two countries.*

It is such differences that complicate the transfer of policy between the two countries, the editors say, and may explain some of the *unintended consequences of borrowing.* The greater the differences, they contend, the more general and abstract the policy transfers should be, if they are to be useful and productive.

Transplantation

The editors' main fascination is with the effect of differing social, economic and political contexts on transplanted policies — that is, *whether particular policies and programs can work in isolation from the system that created them,* much like an organ transplant, and how transplantation may alter the original idea. A case in point is the UK borrowing of the JTPA Private Industry Council (PIC) concept, making greater demands on the British employer community than JTPA makes on American employers, even though the research evidence has suggested that the effectiveness of PICs was questionable. The Training and Enterprise Councils (TECs) are now encountering problems similar to those faced by PICs, such as the maintenance of employer leadership at the top levels of management, and the development of performance indicators. It is not yet known whether the distribution of central government training dollars directly to employer-controlled TECs will work, given differences between Great Britain's and the US's cost reduction goals, national income distributions, tax systems and approaches to private sector risk assessment.

The direction of British borrowing is changing with John Major's tenure, and the growing emphasis on European Union status, the editors observe. The policy exchange appears to be giving greater emphasis to EU education and training models, although they feel that broader, more wide-ranging borrowing is likely to occur on the part of all industrial nations in the future. Meanwhile, the UK/US linkage is too strong to preclude continued sharing of policy concepts. The editors say that "British conservatives remain covetors of the U.S. labor market's capacity to create jobs and convince individuals to invest in their own education and training." At the same time, the US has become intrigued with Britain's approach to national assessment, school-to-work transition programs and experiments with educational vouchers.

Finegold's Perspective on the Economics of "Borrowing"

There is so much of interest in the various chapters of this fine book, a thorough review must of necessity extend beyond this issue of *Evaluation Forum*. In this issue we focus more narrowly on David Finegold's intriguing chapter on "The Changing International Economy and Its Impact on Education and Training."

Finegold's interest is in the *economic context* of the heavy borrowing that he claims occurred between the UK and the US in the 1980s. Within that context he addresses three issues:

1. Economic change as the major influence in stimulating employment and training reform in all advanced industrial nations since the mid-1970s — particularly the integration of world markets, technological change and growing anxiety about economic health.
2. The two countries' common environment of "relative economic decline" — with an emphasis on the structural characteristics of their economies that have resisted the development of high-skill initiatives, such as their low level of education and training.
3. The differences between the two countries that provide the US with a greater capability to create and sustain high-skill economic activity.

Economic Change

The period between the end of World War II and the 1973 rise in oil prices was one of sustained economic growth and relative stability, significantly different from the international competition that characterizes the 1990s. Within the new competitive environment, Finegold views the increasing interdependence of industrial economies as the most dramatic change. Less striking but nevertheless influential is the growing importance of international trade, particularly among the developed countries and regarding services.

Joint cross-country economic ventures have grown enormously. In the three-year period between 1985 and 1988, 400 alliances between American and European corporations have been created, 150 between European and Japanese firms, more than 200 between Japan and US companies. Also, the internationalization of capital has stimulated cross-national high-technology development. The establishment of the EU and the signing of NAFTA have supported the integration of world markets further.

These developments, Finegold says, have moved the industrial giants away from "export-driven, nationally-centered companies" to a new phase directed by global competition and global corporations. In this new economic environment there are formidable new competitors for the world's capital and goods: in particular Japan, but also Hong Kong, Singapore, Taiwan and South Korea. These new entrants into the world market scene, Finegold believes, are "moving rapidly into higher quality, higher value-added market segments once dominated by the US and Western Europe." To explain the implications of these changes, Finegold summarizes Robert Reich's analysis thus:

> As the major factors of production (capital, technology and raw materials) move more freely and quickly across national boundaries, labor, the least mobile factor, becomes a more central component of firms' search for competitive advantage. Since the advanced industrial countries cannot compete with developing countries on the basis of labor cost, the survival of their manufacturing base — and the vast array of services which supports it — depends upon superior labor quality and hence the skills of current and future employees.

Technological Change

It is the rapid evolution of *microelectronics and information technologies* that Finegold cites as the major change, in that this evolution has altered what is sold in the new market and how goods and services are produced. The new technologies, he says, allow companies to respond within a short timeframe to shifts in customer demand. Forcing rapid restructuring, these breakthroughs have reoriented manufacturing approaches and reorganized manufacturing processes. They have also demanded new kinds and levels of worker skills. As companies have moved in this direction, fewer manual workers have been needed, Finegold points out, and higher skills have been in demand for the workers retained. However, he makes it clear that technological change does not *always* lead in this direction. Managers are free to decide whether to economize and upskill, or to increase managerial control and reduce the skill level of their workforces.

Economic Restructuring

The oil crises in 1973 and 1980 produced deep recessions, and increased unemployment and inflation. In addition, firms found themselves awash in a more uncertain economic environment filled with many changes. All of the industrialized economies felt "compelled to restructure," Finegold says. A major restructuring objective was the creation of greater flexibility — for firms, for workers. This new flexibility was to encourage more rapid adjustment to economic change. It was played out in more interest in *improving the school-to-work transition, in more high-tech training, and in greater attention to upskilling and career redirection for workers dislocated by restructuring economies.*

Early production systems, with their large semi-skilled workforces, performing a narrow range of work assignments on machines confined to those purposes,were being abandoned for more specialized "niche systems" that are able to rush the development and production of new goods and services to meet rapidly emerging consumer demands and opportunities. The Japanese

> Many American ET experts have been surprised and confused to learn that Margaret Thatcher looked to their country for policy ideas. They are surprised because they tend to view the British education and training system as relatively successful; they are confused because, in the United States, the ET system is widely considered to be in such a state of crisis that no nation would want to emulate it. For observers of the British scene, these American problems will seem familiar: significantly lower levels of attainment in reading, math, and science compared to its main international competitors; high drop-out rates in secondary schools, particularly in the inner cities; and growing skills shortages in specific industrial sectors. Ironically, it is the common institutional setting of these problems, rather than any record of success, that may explain the affinity between the two countries' policymakers.
>
> David Finegold, Laurel McFarland, and William Richardson in ***Something Borrowed, Something Learned***

were first, Finegold says, to create such "just-in-time production systems" which used coordinated supply chains and close monitoring of consumer attitudes and preferences. These yielded substantial savings on inventories while achieving a high level of market responsiveness. However, Finegold qualifies the movement toward greater flexibility, pointing out that companies in the advanced industrial nations have pursued flexibility in different ways.

Some firms, he says, have focused on cutting fixed costs, reducing their full-time workforce through the use of part-time or temporary workers, and tying wages more directly to worker performance through profit sharing, bonuses, Employee Assistance Plans, and other strategies. Other companies have emphasized decentralizing control over the work process to frontline workers who are multi-skilled. Relevant to this strategy, Finegold distinguishes between measures involving multi-*skilling* vs. multi-*tasking*. The former involves increased worker responsibility and enhanced skills for those absorbing new technologies or production processes. The latter involves the simultaneous performance of a number of tasks that are at a comparable skill level.

Low-skill flexibility strategies, he says, reduce costs through dependence on cheaper labor, and through reigning in the size of the workforce. For companies hunting high value-added markets, high-skill flexibility strategies provide significant advantages, such as better product quality, a reduction in downtimes, and the encouragement of continuous innovation.

Different firms make varying judgments about the cost/benefit tradeoffs of these two general strategies. These judgments, the author says, are influenced by the interdependence between "corporate/product strategies, competence requirements, and the employment and training [ET] system." For example, managers may be less apt to invest in their own ET if the message from the labor market is that companies are organized in ways that preclude rewards for higher skills. Managers may well make choices based on the existing level of ET and on the institutional environment they are in. In Germany, says Finegold, the high quality ET system generates innovation because managers understand they must organize the work process such that workers continuously have opportunities to learn and use new skills — the sanction being that they will be absorbed by the competition.

Institutional Impediments to Investment in Employment and Training

Finegold's message is that the US and UK evidence less investment in employment and training than do other industrial countries, which tends to discourage the development of high-skill strategies.This conclusion is not meant to ignore common factors across nations that affect skill requirements. Among such factors, the author highlights *firm size, the nature of the production process*, and *the type of markets involved.* Even those countries encouraging high-skill strategies evidence aberrations. In Japan, multinationals subcontract with firms providing considerably lower wages and less job security. In Germany, a core of highly trained, strongly unionized workers co-exists with a migrant labor force. Nevertheless, Finegold's interest is in what *disincentives* exist institutionally and otherwise in the US and UK that have discouraged the march toward high-skill, high-wage managerial practices. These are the major influences Finegold outlines in analyzing comparative data.

- In Britain and the US, the majority of individuals leave compulsory education with a relatively low level of knowledge and skill attainment, particularly in math and science — in fact, they rank at the bottom on the latter.
    - ◆ In England, there is also a high dropout rate prior to the completion of compulsory school. Only one-third of the age group 16-18 remains in school or college and less than 18% go on to higher education.
    - ◆ In the US, the vast majority of students remain in school until age 18, and approximately one-half of this age cohort continues into some form of higher education.
    - ◆ The US high school diploma involves no assessment of the knowledge or skills attained, and the route into vocational training for the non-college-bound is obscure.
- Students leaving the educational system in the US and UK may not close the skills gap in these modern economies.

  - One-fourth of British manufacturing companies reported in 1988 that they lacked skilled workers. Teaching and nursing were experiencing the same deficits.
- US and UK managers do not demand as high a level of skills on the part of the average worker as in other industrial nations.
  - Studies find that both managers and workers are poorly trained.
  - West German hotels, for example, had 65% higher labor productivity than Great Britain, related to the greater quality and quantity of training of German frontline staff and supervisors.
- US and UK firms introduce new technologies as ways to reduce costs and improve efficiency, rather than to enhance frontline workers' skills, make the workplace more flexible, or position workers to utilize research breakthroughs to enhance products or services.

Using a particular analytical framework, Finegold draws insights from the UK and US experience in ET investment. The interdependence of three major players in making investment decisions forms the core of this framework — the three being *company managers, government policymakers, and individual workers.* Another factor, the institutional setting, tips the scales in the decision to invest or not invest in ET, according to the author. Emphasized are two characteristics of high-level skills: the length of the period prior to realizing a benefit from an investment in ET, and the various correlates of the decision to invest. Within these attributes, these are the factors Finegold concentrates on:

1. The Short-Term Outlook of the US and UK

Finegold maintains that a long-run strategic perspective is more conducive to investment in ET because of the high cost and deferred nature of the returns on this investment. However, three structural elements of the UK and US economies support a short-term approach.

- The two countries' top management echelons look more to the stock market than to the banking system as the primary source of financing, because of security laws. Financial market analysts focus on easily accessible company performance measures, such as quarterly earnings and revenue, which support a short-term view. American executives give highest priority to the increase in share prices. Japanese managers emphasize market share.
- The sheer number and size of hostile corporate takeovers in the US and UK in the 1980s further reinforced a focus on short-term results. Government regulations and ownership structures in Japan and Germany preclude such takeovers.
- The organization of firms into "cost and profit centers," and the reliance on traditional accounting methods, discourage measurement of the less tangible benefits of skills upgrading, giving training a low priority among managers.
- Occupational trainers themselves are accorded low status and are often poorly trained and remunerated, making training vulnerable to cost cutting. Japanese and German companies have made skills development an integral part of corporate structures, using economic downturns as an opportunity to increase training, and entering upturns with the advantage of better-trained workers.
- The electoral cycles in the US and UK mediate against a long-term perspective.
- In the US, the general decentralization of educational decisions to states has moved policymakers away from strategic planning involving training. Central governments in the UK and the US have focused on disadvantagement rather than on higher-level skills acquisition.

2. Inadequate Educational Approaches

- Both countries provide few incentives to students to invest their time and effort in ET.
- The U.S. labor market does not reward high school effort. The UK's elitist examination structure "brands the vast majority of students as failures."
- Employers attach little importance to education-based vocational qualifications, and apprenticeships are limited to a minority of students. In Japan and Germany, all students have incentives available to boost their work effort in compulsory education because their performance is directly related to their future occupational opportunities.

3. Relative Ease of Hiring and Firing

- US and UK models and laws discourage a linking of job security to the acquisition of skills. The labor market is the main impetus for the individual's choice to obtain more training. German labor law and the Japanese "lifetime employment" model accomplish that linkage.
- The US provides strong incentives for individuals to invest in further education following high school. More high school students continue into higher education than in any other advanced industrial nation in part because of the value employers place on formal degrees and open access to higher education. The British exam system essentially rations higher education opportunities. Wage differentials between the skilled and unskilled are not great enough to interest those not in college in occupational training.
- Both countries have failed to design "a clearly defined, high-status structure of vocational qualifications that would help motivate individuals to obtain training, as in Germany."

4. Absence of Institutional Structures and Processes to Foster Cooperation

- The lack of formal structures and processes in both countries erodes interest in the mutual benefits of cooperation, such as those gained through information sharing, the coordination of activities, joint financing of training, the clustering of specialized businesses and industries, and the development of employer organizations.
- Cooperation between managers and policymakers is weak, leading to an over-emphasis on job-specific training at the expense of general skills, and on the inability to keep pace with technological change.

  The Anglo-American stress on "voluntarism" leaves training decisions to managers and their employees. This reduces an exchange of information between government and key producers which is critical in encouraging ET investment in transferable skills. Connections between government, unions and employer organizations in the US and UK ranked last in a study of eight of the largest capitalist economies in their ability to formulate and implement consensual labor market and industrial policies.
- The industrial relations arrangements in the US and UK have discouraged managers from pursuing the acquisition of high-level skills on the part of workers. Britain's craft unionism has interfered with the reorganization of work and investment in new technologies, which are needed to support a high-skill flexible strategy. In the US, the weakness of organized labor and the absence of protective legislation ensuring employee's rights has allowed managers to design corporate restructuring with little concern for skill levels.

5. The Lack of Sustained Pressure to Innovate

- The large size of the US domestic market and historically low dependency on experts has supported slow adaptation to changes in world competition. The UK is more integrated into the world economy but has traded mostly with developing countries. And the UK has insulated certain economic sectors from competition, contributing to economic decline.

The Author's Conclusions

Finegold's position is that the UK and US cannot any longer avoid international competition and its implications. A decade of market-oriented policies, such as privatization and deregulation, in the context of the increasing integration of markets throughout the world demand that these countries match or outdo the high-skill competition. So both countries are recognizing the need to improve their ET systems. But Finegold is not all that optimistic. Even if the attainment level of students is raised significantly, too many other features mediate against major ET reform, he concludes. He believes that these other influences may discourage key actors in both countries from investing in higher-level skills development.

Editor's Note

David Finegold is the author of *Education, Training and Economic Competitiveness*, published by the UK's Oxford Press in 1993. He has also written in the *Oxford Review of Economic Policy* and contributed to *International Comparisons of Vocational Education and Training for International Skills* edited by P. Ryan in 1991. William Richardson's most recent book, on the reform of post-16 education and training in England and Wales, is co-edited with David Finegold. Laurel McFarland has written numerous articles on the economics of postsecondary education and has been involved in several comparative education projects sponsored by the National Academy of Sciences and the Organization for Economic Cooperation and Development.

For more information about the British TEC system, the UK Employment Department produces an interesting, informative series of reports titled *Research Series*, many of which analyze TEC activity. The Research Management Branch of the Department also produces the series *Individual Commitment to Learning* and *Investors in People*.

Another useful reference is a recent book by Bennett, Wicks and McCoshan, *Local Empowerment and Business Services: Britain's Experiment with Training and Enterprise Councils*, published by UCL Press, Ltd. in 1994.

The following is a sample of relevant reports in the Employment Department's *Research Papers* and *Training Research and Development* reports:

Boreham, N. and T. Arthur, *Information Requirements in Occupational Decision Making*. University of Manchester, 1993.

Crowder, M. and K. Pupynin. *The Motivation to Work*. Minds at Work, 1993.

Ernest and Young. *TEC Participation in National Development Activity*, 1993.

Marchington, M.et al. *New Developments in Employee Involvement*. Manchester School of Management, 1992.

Pearson, I. *The Role of Evaluation in TEC Planning*. WMEB Consultants, 1994.

Pupynin, K. and M. Crowder. *Regional Advice Unites: An Examination of Models for Delivering Advice and Guidance to TECs and Department of Employment Regional Offices*. Minds at Work, 1994.

Rix, A. et al. *Investors in People: A Qualitative Study of Employers. CRG People at Work*, 1994.

Taylor, S. and L. Spencer. *Individual Commitment to Lifetime Learning: Individuals' Attitudes*. Social and Community Planning Research, 1994.

Vaughan, P. *TECs and Employers: Developing Effective Links*. Employment Department, 1993.

Economic Reform in the Former Soviet Union

Editorial Introduction

In the Interviews Section of this issue of *Evaluation Forum,* we feature an interview with Salvatore Zecchini of the OECD concerning current economic and employment policies and their consequences in Central and Eastern European countries and the now-independent republics of the former Soviet Union. In this part of Issue #11 we focus on the former USSR through a series of articles on pre-Stalin, pre-Yeltsin economic reform efforts. These reforms constructed an important foundation for the economic reform debates continuing in the separate republics, and in particular in Russia.

Why should American educational, training and employment professionals and evaluators want to know about economic reform ideas in these post-socialist countries? It is understandable that our first priority must be a better understanding of our own economic system and workforce. But in the past this logical emphasis has tended to isolate us from the experiments of other industrialized nations. This singularity of focus is changing rapidly. The American literature on employment and training is now filled with insights from Western Europe, Japan, and the restructured nations of Central and Eastern Europe and the former Soviet Union. In the context of a major shift from manufacturing to services and information in postindustrial countries, and with the internationalization of economic competition, we clearly need a broader canvas on which to paint American policy options. Therefore, we are making this beginning investment in the history of economic reforms in the former Soviet Union.

This cameo of reform efforts expresses the basic tension in all market-oriented economies between *economic efficiency* and *socio-economic equity,* and therefore contributes in its own distinct way to our current thinking about the conduct of the U.S. economy in a social democracy.

■■

A Selective Overview of Soviet Economic Reform Policies

In this article we selectively review an informative Brookings Institution book by Edward A. Hewett published in 1988 — *Reforming the Soviet Economy: Equality versus Efficiency.* A senior fellow in the Foreign Policy Studies program at Brookings, Hewett's analysis of the pre-Gorbachev and Gorbachev reforms provides useful insights about the Soviet experience in revitalizing and restructuring its economy. Hewett's main message is that while the Stalinist system was successful in achieving industrialization and securing social and economic equity, it was not suited to the ongoing management of a mature and increasingly complex industrialized economy or to the achievement of economic efficiency. Relevant to this viewpoint, the following excerpt from his book is enlightening:

> Lenin's vision of the first, socialist, phase of communism was powerful in its simplicity. He foresaw a system in which workers . . . would enthusiastically pitch in to produce for each other, distributing the fruits of their labor fairly and equally. The management of that system . . . would not prove an onerous burden, given the educational level of the labor force and the smooth operation of systems inherited from capitalism. Socialism, for Lenin, was the marriage of the efficiency of capitalism and the equity so fervently sought by generations of socialists. . . . Now, seven decades after the Russian Revolution, Soviet leaders are still searching for a formula that will make that "marriage" work. They have a system that can boast many successes, most notably in achieving some of the equity goals of fundamental importance to Lenin and his Bolshevik party. The state, virtually the sole employer, has a tremendous appetite for labor. Thus the USSR has almost no involuntary unemployment, still one of the main sources of waste and human misery in much of the capitalist world. . . . This is the ultimate "welfare state." . . . It is the efficiency side of the marriage that has not gone at all well.

Pressures for economic reform in the direction of a market economy have been the legacy of this dilemma, but such reform remains a quandry. Well-functioning market-oriented economies are dependent on *economic efficiency* and *competition for customers.* These economies can be ruthless in punishing nonproductive individuals and businesses, according to Hewett, and unfair in distributing rewards for successful competition. These correlates of market-driven systems are not supportive of egalitarianism. In fact the introduction of extensive social and economic entitlements, Hewett contends, can seriously reduce a market economy's efficiency and profitability. Therefore the form Soviet economic reform has tended to take has essentially required a *redefinition of socialism.*

Hewett views the continuing debate over the nature and direction of economic reform in the USSR as a debate over *efficiency vs. equality* principles. He says the essence of this debate is whether a viable method can be found to "dilute the egalitarian bias" of the system in achieving more economic efficiency — that is, whether a strategy can be implemented to accomplish reform goals without destroying *socialist legitimacy.*

The Meaning of Economic Reform in the USSR

We tend to forget that Nikita Krushchev proposed economic reforms in 1957, Aleksei Kosygin in 1965, and Leonid Brezhnev in 1973 and 1979. However, Hewett does not view these as "comprehensive" reforms. They were more in the nature of partial reforms that contributed to later reform efforts by alerting leaders to what seemed to work well and what did not work. Neither does he see *Perestroika* under Gorbachev as a comprehensive reform in the economy, if we define economic reform as a change in the way *resource allocation decisions* are made — i.e. in the "institutional arrangements" that determine how resources are produced and distributed.

The author points out that economic reform in the Soviet Union and Eastern Europe has been associated most often with "economic *de*centralization." This focus is understandable given these countries' economic performance problems. However, Hewett acknowledges that "economic *re*centralization" can also be seen as a reform, whether or not it is appropriate in resolving economic problems.

The important issues to study in analyzing economic reform efforts, according to the author, are 1) whether the reform *de*centralizes or *re*centralizes decisionmaking regarding resource production and allocation, 2) whether the reform is comprehensive, and 3) whether the reform affects all major economic institutions. Some changes are not reforms, he says, such as economic *policy* changes that utilize the existing system to improve economic performance. But such changes are important in making significant shifts in the way the economy is guided without the risk of organized resistance to change.

However, Hewett feels that while economic policy changes should be part of reform packages, more *systemic* economic reforms must be the major drivers of change, particularly given the performance problems that faced the Soviet Union during the Gorbachev period. He would likely take the same position today.

And Hewett cautions that reform movements are not all of one piece. Each is distinguishable from others through its own array of personalities, forces and conditions, the particular combination of which influence the outcome of reform efforts. Studies of these outcomes for the Krushchev and Brezhnev eras suggest that the particular mix of characteristics these reform strategies involved ultimately proved fatal, leading to economic retrenchment rather than to improved performance.

Strengths and Weaknesses in Soviet Economic Performance

Hewett's analysis pinpoints Soviet *central planning* as the most critical source of performance problems. Soviet leaders attempted to preserve what they judged were the strengths in the existing system, including central planning, while seeking to reduce or eliminate the weaknesses, but the two sets of attributes were so intertwined as to reduce the effect of this compromise.

The three main strengths Soviet leaders saw in the existing economic system were 1) the high level of growth in the economy and in living standards, 2) the high degree of economic security in the context of this growth, and 3) the system's commitment to egalitarianism. Hewett claims that the USSR came as close to full employment as any industrialized economy can hope to accomplish — "the degree of personal economic security in the workplace [was] virtually unparalleled in Western countries."

Egalitarianism was, of course, a key element in Marxism. Marx's major criticism of capitalism was that it produced and/or reinforced *inequities in the distribution of wealth, income and power.* He viewed the existence of unemployment as a symptom of this inevitability. This ideological perspective explained socialists' emphasis on the *means of production* as well as on the *allocation of resources*. The Russian revolution was the first effective strategy, Hewett says, for acting on this perspective in a nation-state, even though the socialization of the means of production was completed only after an abusive collectivization of the peasantry.

In this kind of system, where the state is the only owner of financial assets and production, Hewett comments that one *must* be gainfully employed to earn income. This dependence on wages and salaries, rather than on assets, then had a leveling effect on income distribution. The reduction of wages related to low unemployment, and the security protections afforded workers irrespective of the economic profitability of their workplaces, also equalized the distribution of income. Added to these income-leveling effects was the high participation of women in the labor force. At the same time, economic losses were absorbed not by single enterprises but spread out across the whole system. Even the shortage of goods was an equalizing influence.

The main strengths in the Soviet system — egalitarianism, economic security, and the growth in living standards — were generally regarded by Soviet leaders as socialist achievements that must be preserved. Consequently these leaders tended to minimize their potential negative effects on economic performance in proposing economic reforms. Since many of the weaknesses in performance were closely tied to a commitment to economic security and equity, reformers had to redefine these concepts in the process of designing new strategies. Hewett feels this helps explain the severe difficulties leaders encountered in Soviet reform movements.

Inefficiencies in resource allocation were not the primary concern in developing new approaches. *Technical* inefficiency garnered more attention. That is, Soviet reformers felt that the misuse and waste of resources in the production process were more critical issues to deal with than the issue of what sectors of the society benefited most or least from economic progress. This priority led Soviet planners to force enterprises to economize on *inputs* — that is, on labor and material — since these were being used at much higher rates than was necessary within Soviet society, and more than was typical in other industrialized nations.

The decline in economic growth rates and labor productivity was Gorbachev's key worry regarding economic performance. In a search for causes, Soviet experts identified several important antecedents:

- The low level of mechanization of Soviet industrial enterprises.
- The tendency to produce low-quality goods that did not respond to consumers' needs or world standards.
- An excess demand for consumer or investment goods.
- A tendency for industrial development to move ahead of infrastructure development, creating supply/demand imbalances.

With the slowing of economic growth, Soviet policymakers had less discretion in setting priorities among the competing interests and pressures from consumers, enterprises and government agencies seeking sources of investment, particularly in the area of defense spending. Consequently they were faced with the need to preserve economic equity and security while boosting economic growth. This challenge underlaid all reform efforts. Since it was difficult to determine the potential causal linkages between phenomena such as falling productivity, low quality output, imbalances in supply/demand, excess demand for investment goods, the sustaining of full employment, and the maintenance of price stability, economic reforms always represented agonizing compromises, often based on inadequate data and research.

Earlier Reform Efforts

Hewett is adamant that Western readers place the Gorbachev reform package in historical perspective if they are to understand its importance. His emphasis in analyzing pre-Gorbachev reforms is to cast Gorbachev as the first soviet leader since Kruschev to conceive, strongly support and actually implement economic reforms.

The 1960s Reforms

It is the comprehensive 1965 reforms that provide the best context. The strategies proposed were similar in many ways to Gorbachev's, and were intended to affect fundamental aspects of the Soviet economy. In particular they involved changes in who supervised enterprise activity, in what determined the allocation of bonuses to enterprises, and in price control. Among other things, these reforms proposed a recentralization of planning, moving it back from regional authorities to central ministries in Moscow, and a strengthening of the discretion of existing state committees.

The most rapidly implemented strategy was *administrative reorganization.* Implementing the incentive system and price reform lagged considerably behind. This delay allowed the existing system to organize its resistance to the changes ahead. Many of the reforms were never implemented, and the impact of those put in place was not enduring.

Hewett places the most blame on the *design* of the reforms. It involved too many changes at one time, some unrealistic. This created too much pressure on the system and led to a dilution of strategies before they had been given a chance to work.

The author concludes that the administrative recentralization strategy had the most lasting effect. It reinstated a *Stalinist decisionmaking hierarchy* to manage the economy, expanding the number of central ministries and state committees. Succeeding leaders expanded this apparatus further in an effort to control an increasingly complex economic system.

The 1970s Reforms

The reforms proposed in 1973 attempted, Hewett claims, to increase the efficiency of this managerial system without decentralizing it. This was to be accomplished by merging various enterprises under one decisionmaking authority, permitting this authority to shift production tasks and input allotments from the least to most efficient enterprises. Brezhnev wanted the central authority to move away from the operational management of enterprise activity into *long-range strategic planning for entire economic sectors.*

However, the 1975 reforms, which were to merge enterprises into more controllable units, did not result in the changes planned. Ministers managed to protect their empires and enterprises from sharing decisionmaking with other businesses. If there were efficiency gains, Hewett's view is that they were swallowed up by burdensome administration.

The author draws three key lessons from the failure of these reforms:

1. Do not ask the very entities you hope to reform to be responsible for the reduction of their own powers.
2. Do not neglect the demand-side consequences of reform, while focusing on supply-side solutions — the mergers actually increased the high concentration of Soviet industry and the power of suppliers, which cancelled out the reform's potential incentive effects.
3. Do not allow a central government body to control merger activity, since this activity then may not be driven by a search for increased profits.

In 1979, there was another effort to redirect the economy. The most innovative component, Hewett believes, was to develop *performance indicators.* At the risk of oversimplification, under this system an enterprise using more labor than a certain determined amount would not be rewarded, whereas more productive and efficient ones would be. There were problems with the use of aggregate measures of enterprise activity, however, and no serious effort was made to implement this reform.

Reform Accomplishments

Taken as a whole cloth, there were two common elements in this series of generally unsuccessful post-Stalin reforms:

- The basic tool of reform was the *central economic plan.* This plan was developed by central government ministries and involved indicators to determine enterprises' compliance with the plan, as well as the allocation of bonuses to enterprises that met or exceeded the plan's expectations.

- The reforms did not focus on the needs and demands of customers in the open market, but rather on central decisions about what constituted high quality goods. There was a fear of loss of control if world markets were allowed to direct Soviet enterprises.

As a result of Soviet resistance to giving "the market" the primary role in increasing economic efficiency, the pre-Gorbachev reforms experimented mainly with *plan indicators* and *incentive systems*, leaving the organizational mechanisms operating the existing economy largely intact.

Hewett makes these comments at the end of his analysis of the pre-Gorbachev reforms:

> In their totality, economic reforms imply a theory . . . concerning the nature of the problems, the systemic changes needed to fix the problems, and the best strategy for bringing about those changes. In the history of Soviet reform efforts, most of the leadership's attention has been focused on the first two components of the theory: what's wrong, and what's the fix? The strategic issue has not been addressed openly, and . . . the approach has been rather simple-minded: the bureaucracy will, in good faith, design and implement decrees conforming to the wishes of the party. However, the modest results of previous reform efforts have gradually stirred up interest in the strategic issue, with the result that a rather simple, widely held theory has emerged that previous reforms failed primarily because of bureaucratic resistance centered in the ministries . . . this view is not wrong, but it is incomplete and superficial...it fails to take into account the flaws in reform design that create incentives for ministries to preserve controls over enterprises. Furthermore, it assumes that other elements of the system are anxious for the reforms to work . . . this ignores the large and important political issues that affect in a fundamental way the choices made in the design of reforms and the fate of the resulting decrees.

Hewett emphasizes that reform involves a complicated process requiring the involvement and investment of all relevant stakeholders. This participation cannot occur *without neutralizing the effect of the proposed changes on those losing something, and without enlisting the support of those having something to gain.* But the Soviet reforms continued to permit a more authoritarian process.

Relevant to the design of reforms, he advocated a first step dedicated to the development of very clear priorities and emphases, followed by strategies capable of anticipating and reducing the inevitable conflict created by gains and losses in the major groups affected by change.

The Economic Reform Debate in the 1980s

Hewett classifies the Soviet players in the ongoing 1980s debates about economic reform into three general categories:

- The *neoconservatives*, who supported a return to the basic principles of Stalinist central planning, but without its correlate of political repression.
- The *moderates*, who accepted the existing system but had significant ideas for improving it.
- The *radical reformers*, who advocated system-wide reforms, particularly a decentralization of the management of the economic system.

The core of the neoconservative position was that the economic system must become better disciplined — but proponents differed considerably about the means for accomplishing this. The main question was whether markets should be used as the tool for imposing such discipline.

Most Soviet economists fell into the moderate group, which represented a wide range of views about how to restructure the economy, stretching between a commitment to strong central planning at one end of the continuum, to radical comprehensive reform at the other. Most wanted to see substantial improvement in *the quality and efficiency of central planning*, but in general supported the ministerial system even though opposing its authoritarian control over enterprise activity. The idea of *mergers* appealed to most of these economists, where planning could be consolidated for a small number of major economic sectors.

In the midst of these considerations, Mikhail Gorbachev opened Pandora's Box, taking the position in his speech at the 1985 Party Congress that the economic situation was such that it was no longer possible to make *partial* improvements — what was needed, he said, was "radical reform." The subsequent development of radical reform positions took two forms: 1) comprehensive reforms similar to the Hungarian model, and 2) reforms that sought a better economic compromise between economic performance goals and the vast safety net protections for individuals and families. The latter position brought to the surface the underlying and ongoing tension between economic efficiency and socio-economic equity.

Although Hungary was viewed with interest, insights from the reforms initiated in other socialist countries had remarkably little influence on the nature of Soviet reform ideas. This was the case even though Gorbachev encouraged a formal study of reforms in Eastern Europe, particularly Poland, Hungary and East Germany. The latter models could have been very useful, but serious consideration of them flew in the face of historical Soviet beliefs that the problems of the USSR were unique and could be understood best in isolation from the broader tapestry of 20th century socialist reforms.

The Gorbachev Reforms

The five-year plan emerging under Gorbachev for 1986-1990 had very ambitious goals. It proposed a reversal of the downward trend in economic growth rates in all major output categories. Hewett reports that national income was to grow at an average of 4.1%, and labor productivity at 4.6%, comparable to the early 1970s. Real per capita income growth rates were to average 2.7%, significantly above recent rates, even if considerably below the early 1970s. In the 1990s these rates were to be increased even more dramatically.

The means for meeting these targets, over a two-phase process, was to be a massive improvement in the quality of goods and services produced. Gorbachev presented the five-year plan as a route to setting world quality standards, not simply a way to meet the plan's goals. This was unrealistic, more a political ploy than a rational economic position. Hewett's opinion is that the real test of Gorbachev's reform plan lay in whether he would support sufficient *economic discipline* to achieve the high-quality output proposed.

The *first* stage of reform was to focus on partial changes. The *second* was to involve the more comprehensive changes. In 1987 the major outlines of the second stage were fleshed out by the Aganbegian Scientific Council working with a system of committees assigned to design different components of the reform. This activity produced much open debate and better consensus-building, and a set of guiding principles were established that would direct economic reform based on the Council's work.

Hewett describes these principles as a set of interrelated changes in all of the key mechanisms operating in the economic system — a comprehensive and radical reform package:

- Annual central plans were to be eliminated.
- Private sector economic activity and the development of economic cooperatives were to be encouraged in certain sectors.
- Enterprises were to be allowed to go bankrupt.
- Workers were to be allowed to lose their jobs.
- Prices were to be far more flexible.
- The monetary system was to respond to a truer medium of exchange.

This agenda was to make substantial changes in the decisionmaking hierarchy, the information system for policymaking, and the incentive system rewarding or sanctioning enterprises for their performance. Interestingly, Eastern European and Chinese economic reforms emerged in some of these principles, even though uncredited.

Direct, detailed central management of enterprises through an annual plan was to be jettisoned, leaving enterprises responsible for the economical use of their assets, and for either the rewards or costs related to the general performance goals set for their own economic sector by the central government ministries. These enterprises were also to be freed, Hewett says, from local management interference. In essence they were to be left vulnerable to competition in the marketplace. Within this framework, state enterprises were to be placed in competition with new private sector self-employment schemes and small cooperatives. For the Soviet labor force, the Gorbachev reforms, according to Hewett, amounted to "threatening the workers of poorly managed enterprises with lower income, and even the loss of their jobs, but at the same time . . . giving them a role in choosing and controlling enterprise management."

The deadline for implementing this second and most all-encompassing phase of economic reform was January 1991, in retrospect a deadline beyond Gorbachev's tenure as Soviet leader.

The Implementation of the Gorbachev Reforms

Hewett thought implementation would be very difficult, with "powerful and frequent temptations to retreat from the principles of the reform." The most important political question, he suggests, was how to reduce the negative effects of the transition to a new economic system and therefore create and maintain the new system's legitimacy with important stakeholders and the Soviet people. Serious economic questions attached to the pace and chronology of reform, and the fairness with which the transition was carried out.

Hewett is convinced that Gorbachev was more interested than any other Soviet leader in the USSR's position in the *world economy.* He believed the Soviet Union would not be successful economically if it could not compete in world markets. But he was equally concerned, according to Hewett, about national security and the level of domestic support for the Communist Party. Hewett's fear was that if the Gorbachev reforms lost momentum, the USSR might rely primarily on military power in the context of residual strength in that sector but weakness economically and politically.

Concerned about the outcomes of the Gorbachev reforms, Hewett proposes four possible scenarios for the future:

1. *The success scenario:* everything works as planned. The reforms occur rapidly, output quality improves substantially, and so does economic efficiency.
2. *The high growth scenario:* the national income growth rates are close to what was planned, with only moderate improvement in the quality of goods and services.
3. *The high quality scenario:* economic growth performance is moderate but quality indicators express significant and sustained improvement, even though economic efficiency is not substantial.
4. *The failure scenario:* nothing works.

Hewett sees some scenarios as more probable than others. The extremes were less likely to occur. However, "success" would, he thinks, require that almost *everything* 'go right' — the design of the reform perfect, the implementation strategy flawless, and radical improvement in quality resulting. Referring to the history of previous reform efforts, he says neither the workforce nor industrial management was likely to respond at a level that would allow this to happen.

Implications of Success or Failure for the West

It is intriguing, given the coup attempt against Gorbachev, the subsequent end of his leadership, and the dissolution of the Soviet Union, that Hewett predicts that the "failure" scenario would be very unlikely, since it would require some "dramatic turnaround" such as the removal of Gorbachev and a shift of power to economic hardliners. Without benefit of a crystal ball, Hewett suspects that the two middle-range scenarios would do most to enhance Soviet economic relations with the West. However, he is less certain about the benefits for Soviet foreign and defense policy. His general assessment is that successful economic reform would give Soviet leaders the *capability* either to follow a less aggressive foreign policy or to finance a greater military build-up. The choice, he thinks, would rest with the level of success in reforming the Soviet political system.

Hewett expects that successful reforms could lead to a country better able to pursue traditional foreign policy and defense goals, become a new customer for Western goods, and a new competitor in world markets. It could also mean a gradual democratization of the political system, consistent with the long-term interests of Western nations. Success could lead, he believes, to greater participation by the Soviet Union in international economic institutions and markets, and to new relationships with the West based more on economic than defense issues. A reform scenario that stimulated technological innovation and improved the quality of Soviet goods and services would, he concludes, enhance Soviet economic ties with the West. Unsuccessful reform scenarios could reverse these trends.

Hewett does not think Western influence over the outcome of the Gorbachev reforms would be more than minimal. The West would be capable only of exerting pressure for minor corrections in the reform process, perhaps making that process more likely to occur. This forecast appeared to be accurate for the early Yeltsin period, but is now debatable as neoconservative views have gained momentum with the growing divisions in political leadership.

Gorbachev's *Perestroika*

As president of the former Soviet Union, Mikhail Sergeyevich Gorbachev became deeply involved in economic issues, particularly reforms that could lead to greater economic performance. The Twelfth Five-Year Plan, for 1986 through 1990, gave substantial expression to his goals for reform: higher national income growth rates, the acceleration of economic development, the improvement of production and its products, and changes in the public's view of the economy and society. The reform concept and plan for change was described in his book *Perestroika: New Thinking for Our Country and the World* published in 1987, which significantly influenced economic thinking not only in the former USSR but in Central and Eastern Europe.

Mr. Gorbachev no longer exerts direct political, economic or ideological influence in the new republics formed by the break-up of the USSR, but he is anything but a has-been. Following his fall from power in 1991, he formed the *International Foundation for Socio-Economic and Political Studies* in Moscow, and subsequently an arm of this foundation in the United States, The *Gorbachev Foundation USA* in San Francisco. The foundation serves as an economic and political 'think tank' intended to promote social democracy in the former Soviet republics, and sponsors international seminars and conferences on global economic, political, environmental and peace issues, including defense conversion.

Only sixteen months after serving as president of the Soviet Union and general secretary of its Communist Party, he was named president of the *International Green Cross* and *Green Crescent*, which aspire to represent for environmental crises what the Red Cross and the Red Crescent already represent for disaster relief. According to Michael Wines of *The New York Times*, Mr. Gorbachev's idealistic plan aims to "standardize antipollution laws worldwide, integrate the diverse efforts of environmental groups, and press rich countries and corporations to assume their share of the global clean-up task."

Although Gorbachev hardly seems to qualify as an environmental czar, given some of the history of his tenure as president of the Soviet Union, the concept of an International Green Cross was, in fact, Mr. Gorbachev's idea — although the organization is supported by an international group of prominent political, scientific and spiritual leaders. And his affinity for ecological protection is not as inconsistent as it might seem to the West.

He joined the Communist Party in 1952, quickly becoming a leader of the Stavropol Komsomol. In 1955 he graduated from the Law Department of Moscow State University as part of an elite group of Russian lawyers. Between 1985 and 1990 he followed a straight-line political trajectory leading to the status of First Secretary of the Stavropol Territory Committee of the Communist Party's Central Committee, then Chairman of the USSR Council of Defense and a member of the Presidium of the USSR Supreme Soviet, and ultimately to the president of the Soviet Union.

Born on a farm in Southern Russia and steeped in rural agricultural life growing up, he had long been concerned about deteriorating fisheries and forests, and about the management of farming, and had served as the USSR's top agricultural official prior to becoming president. Therefore the interview Mr. Gorbachev provided to Colin Greer for *Parade Magazine* in January of 1994 is informative regarding his view of his new role vis-a-vis international environmental activism:

> We need to spawn a different intellectual and values climate and a different set of economic goals. No country actually believes the free market can be socially irresponsible. I want more socially oriented market economies in the world. . . . At the same time, the business marketplace that is based on economic freedom, that can function with independent producers and owners, forms the material basis for democracies. I see no

> The course of intensification is dictated by objective conditions, by the entire course of development of the country. There are no alternatives. Only an intensive economy, developing on the basis of a state-of-the-art scientific-technical base, can serve as a reliable material base for increasing the welfare of workers, guaranteeing the strengthening of the position of the country on the international arena, ensuring that it will deservingly enter the new century as a great and prospering power.
>
> Mikhail S. Gorbachev, in ***Pravda,*** December 1984.

contradiction between the market and democracy. If we are going to protect the planet's ecology, we are going to need to find alternatives to the consumerist dream that is attracting the world. Otherwise, how will we conserve our resources, and how will we avoid setting people against each other when resources are depleted?

Given this revised view of the political architect of *Perestroika,* what were the major reforms proposed within this second Russian revolution in the 1900s?

The Concept of *Perestroika*

The most immediate priority at that time, according to Gorbachev's book, was to put the economy in order, tighten discipline, and raise the level of organization and responsibility. A profound *structural reorganization of the economy* was needed, he felt — a reconstruction of its material base, the development of new technologies, changes in investment policy, higher management standards.

The government, he proposed, needed to shift economic activity from new construction to the technical retooling of enterprises, to saving resources, to sharply raising the quality of output. At the same time it needed to change the moral and psychological situation in society, and the organization, style and methods of work. A policy of *openness and social justice* was needed.

It was imperative, he contended, that government take into consideration the diverse interests of people, of work collectives, of public bodies, and of various social groups, drawing them into active, constructive collaboration to improve the economic situation. *Perestroika* was not only about reforming the economy but about opening up and democratizing Soviet society, and engaging people more directly in its improvement.

In June, 1987, the CPSU Central Committee adopted principles for implementing this approach to reform in "Fundamentals of Radical Restructuring of Economic Management." This was likely the most radical program for economic reform in the Soviet Union since Lenin introduced his New Economic Policy in 1921. It proposed a transition from an excessively centralized management system to one based on *democratic centralism and self-management.* So *Perestroika* had several dimensions:

- The overcoming of economic stagnation and an acceleration of social and economic progress and dynamism.
- The comprehensive development of democracy and an encouragement of individual initiative, creativity and discipline.
- A shift to scientific methods, and a better linkage between the achievements of the scientific and technological revolution and a planned economy.
- Better living and working conditions for Soviet citizens.
- Greater social justice.
- An elevation of honest, highly-qualified labor.

In this sense, *Perestroika* involved a renewal of every aspect of Soviet life.

Implementation Challenges

Gorbachev's thinking, the work of the designers of his reforms, his acclaimed book, and the institutionalization of new ideas in significant policy pronouncements, launched enormous changes in the USSR which have continued to influence developments in Russia and the other republics. This is not to deny that there were serious challenges to economic reform during this early reform period as well as currently.

One challenge has been the need to *modernize the economy* and *shift investment policies.* Another has been the necessity of *freeing central authorities from an operational role,* to a more general focus on improving the economic environment and directing the basic steps in economic development. The new economic system was expected to emphasize *more decisionmaking authority* and *much greater responsibility and accountability at the regional and local level.* The *expanded role for private and cooperative economic activity also posed challenges.*

Certainly the shift from obligatory State economic targets to norms linked to the performance of enterprises has been a genuine challenge. The reorganization of different levels of the government hierarchy, and the emphasis on the coordination of activity have constituted new hurdles. Establishing a new incentive system affecting both enterprises and workers, as well as the branches of government monitoring them, has also tested the reform movement. An additional and very important challenge has been deciding whether some reforms should be implemented before others, and sorting out how to deal with the *effects* of the transition.

Comment

For Central and Eastern Europe, and for the former Soviet Union, the transition to a market economy clearly represents a difficult historical passage. This is certainly to be expected given the magnitude of the economic, social and cultural changes occurring in these societies in the context of their traditions.

Editor's Note

For readers interested in more information about Mr. Gorbachev's ideas, please see:

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Perestroika: New Thinking for Our Country and the World. New York, NY: Harper Collins, 1987.

A Road to the Future. The text of Mr. Gorbachev's address to the United Nations. Ocean Tree Books, 1990.

The August Coup: the Truth and the Lessons. New York, NY: Harper Collins, 1992.

The USSR in the Transition Period

In this article we again take a look at the pre-Yeltsin period in the Soviet Union. The perspective this time is based on Alexander Samorodov's chapter in a book published in 1993 by the Organization for Economic Cooperation and Development, *Structural Change in Central and Eastern Europe* edited by George Fischer and Guy Standing. The author gives us a more detailed appreciation of economic and labor force issues in the Soviet Union prior to the creation of the independent republics.

Launching the Reforms

Samorodov introduced his chapter on "The Labour Market, Social Policy and Industrial Relations in the USSR Under Transition" with some bleak statistics. The USSR's GNP was estimated to have declined 17.9% in 1991 and production by 15%. Trade with other countries had fallen over 39% in 1991. The official inflation figure was 10% for 1990, but may actually have been as high as 25%. The rouble had been devalued six times since December 1990, a decline of over 80% in its value.

This was a very difficult way to begin a transition to a market economy, Samorodov muses. Nevertheless, in April 1991 the Soviet Cabinet of Ministers indeed proposed to launch such a reform. A number of goals were to be accomplished within the reform, such as these:

- To resuscitate economic ties between the USSR and COMECON, the trading network involving Central and Eastern Europe.
- To increase internal economic linkages between enterprises.
- To provide "most favored nation" status in international trade to those republics willing to sign the union treaty.
- To begin privatization, particularly regarding small businesses.
- To ban strikes temporarily to stabilize the labor market.
- To hire business managers and experts to increase efficiency.
- To provide fiscal incentives to workers to increase productivity, such as removing the limits on personal income and increasing the amount of income exempt from taxation.

A Framework for Reform

A wide range of new laws were passed in 1990 and 1991 to implement reform goals. However, Samorodov's conclusion is that despite this legislative activity no adequate legal framework for a market economy had been put in place by late 1991. The reasons were many. Samorodov suggests the following:

- Population growth rates were declining except in the Central Asian republics.
- Urbanization was continuing — two-thirds of the population were urban residents in 1990 compared to 48% in 1957.
- Total employment was declining but new employment forms were emerging, such as cooperatives, self-employment, and joint stock companies.
- Although mass layoffs had not occurred, part-time, less than year-round, and seasonal employment was growing.
- Labor supply and demand were seriously mismatched — in 1991 nearly 97% of laid-off workers were government employees, but 85% of the job openings were for blue collar workers.
- The lack of geographical mobility, housing and employment services, and complicating administrative regulations, were hampering the reemployment of the unemployed. This was in the context of a society inexperienced in dealing with unemployment, where the tendency was to view the unemployed as personal failures.
- Two-thirds of young people (teenagers and those in their 20's) lacked vocational training.

Consequences for Workers

Samodorov reports that a high and continuing level of *displacement and dislocation* were occurring during this early period of reform. He explains this phenomenon in terms of increased economic accountability pressures, the migration of labor from the public to the private sector, and the greater discretion on the part of businesses in hiring and firing workers. He says some experts predicted a loss of 40 million jobs from the public sector for 1995, a number likely to be increased by the number of workers let go from enterprises suffering economic losses. Also, the elimination of villages considered nonproductive was seriously affecting rural employment.

Ethnic unrest and a substantial movement of workers to Central and Eastern Europe and elsewhere could, Samodorov proposes, significantly increase transition problems, such as the reduction of the supply of highly qualified young workers. The most difficult situation concerned youth employment in Central Asia, where in the 1980s half of all unemployed workers were young people. The main issue was dissonance between their skills and available jobs, and their vulnerability to layoffs in the midst of restructuring. *Long-term youth unemployment was becoming a major problem.*

More generally, Samodorov points out that a key consequence of restructuring in the direction of a market economy was the absorption of the public sector and industrial unemployed by the service sector, reducing blue collar workers' wages and salaries. Service income fell from 80% of non-service sector income to 70-75% between 1975 and 1990.

Remedial Strategies

In the context of these developments, the author emphasized the importance of the 1991 *USSR Law on Employment of Population* in addressing major labor force problems. Although the USSR separated into republics eleven months later, this law affected subsequent employment policies in Russia and the other republics — it became the foundation for subsequent market-oriented laws. The 1991 law and related legislation reinforced the traditional *right to work*, and ended what Samorodov labeled "the system of administrative coercion to work." The central government was ensuring that individuals would have the freedom to choose their form of employment within the limits set by the market. This "right to work" guarantee included the right to pursue unpaid work, such as acquiring additional education, to contribute work for the public good, and to raise children — *all of these were to be considered productive and creative work.*

The law also established formal definitions for "employed," "unemployed," and "suitable jobs." In addition it placed emphasis on *employment services*, which had been inadequate and little used in the past. These expanded services were to include screening for the unemployed, paying unemployment benefits, organizing public works projects that could absorb the unemployed, and referring workers to sources of training and retraining. The qualification and training of employment service staffs were to be greatly improved and the number of offices increased.

The 1991 law also supported the development and implementation of special programs at the central, regional and local levels *to create jobs, prevent unemployment, assist workers in becoming reemployed, protect workers from the negative consequences of economic change, and increase workers' mobility through retraining and relocation.* Workers laid off from business or industry were to receive severance pay up to three months, equal to their average wages for that period. Those workers laid off due to the reduction of staffs or to business failure or reorganization, and who were to be retrained for a new job, were to receive grants equal to a portion of their previous average wage while in retraining.

Unemployed workers meeting established eligiblity requirements were to be paid unemployment benefits until they found another job or up to twenty-six weeks, and there were special extended benefits available for the long-term unemployed, unemployed military personnel, and other categories of workers such as new entrants to the labor force. The law also required that strengthened retraining programs were to be an integral part of labor market policy. Disadvantaged groups — youth, women with young children, the aged, the disabled, and the unskilled — were given special priority, as were geographical regions with the more prominent labor surpluses or deficits.

All of these laws were intended, Samorodov says, to speed the transition to a market economy, provide a legal framework for reform, and reduce the negative consequences of change. After the break-up of the Soviet Union, however, the individual republics began to adopt their own legislation. Each republic charted its own course — but with elements in common with others: *privatization, price liberalization, and the lifting of limits on personal income.*

Family Incomes

Service occupations were viewed as the major sources of employment for the unemployed and disadvantaged despite the fact that wages and salaries in this sector had fallen. This position was maintained even though approximately a quarter of the population of the republics already had incomes close to the minimum wage level.

Social support for the poor and other vulnerable worker populations became imperative, given the need to reduce unemployment without restricting labor flexibility. This new mandate was exacerbated by inflation which had grown 500% prior to price liberalization in 1992. Even with the freeing of prices, Samodorov says, the government found it could only protect the very poor. Family and child allowances were increased based on family income, but a debate persisted over what the guaranteed minimum income should be.

However, the deregulation of wages, part of the move toward a market economy, had widespread effects of another kind. The average monthly wages in the USSR were allowed to rise continually during the *Perestroika* years, lead-

> ***The Market Meets Its Match*** (Harvard University Press), by Alice Amsden of M.I.T., Jacek Kochanowicz of the University of Warsaw, and Lance Taylor of the New School for Social Research, offers a critique of "shock therapy" as practiced in Eastern Europe, envisioning instead a gradual transition to free markets based on East Asia's experience. . . . But Jeffrey Sachs, an economist at Harvard and an intellectual architect of shock therapy, brushes aside the authors' alternative. . . . Mr. Sachs contends that the successes writ so large on Asia's nearly blank economic slate can hardly be models for economies with legacies of bureaucratic meddling and a fierce sense of populist entitlement. . . . Mr. Sachs argues that the comparisons [with Japan, South Korea and China] are spurious. The Asian miracle economies started the process of development as rural societies with little capital, no government safety net and very low expectations. Eastern Europe, by contrast, is largely urban and heavily — indeed, excessively — industrialized. . . . Eastern Europe is stuck with the crumbling remnants of a Stalinist industrial infrastructure, wary multinationals that insist on controlling their own technology, and workers who are linked to enterprises the way medieval peasants were tied to manors. . . . As for gradualism, Mr. Sachs points out that China dropped the commune system overnight. . . . And while China has never disciplined its state-owned industrial sector by opening markets or eliminating subsidies, it has built a modern economy around the relatively small decaying core — something Eastern Europe cannot afford to do because the decaying core isn't small. . . . Shock therapy still seems superior to the alternatives."
>
> Peter Passell, in the January 19, 1995 *New York Times*

ing to larger social expenditures, a greater budget deficit, and rising inflation. Therefore wages were growing in spite of the decline in production and labor productivity. And higher wages were, to large extent, demolished by higher inflation. Pressures from workers to right this wrong began to surge.

Meanwhile, growing income inequality was occurring due to the polarization between those with fixed incomes (grants, stipends and pensions) and those with deregulated wages and salaries. New trade unions of millionaires emerged, while pensioners' standard of living plummeted. A new policy for negotiating wages and salaries evolved to address this new socio-economic stratification. It involved "a system of tripartite collective labour agreements," according to Samodorov — the government, employer associations, and trade unions. The market, however, was to determine wage and salary levels through "*collective contracts* between management and labour." These were *bargaining* agreements, quite different in concept from contracts under the previous centrally-planned economy.

Skill Levels and Retraining

Samodorov reminds the reader that the USSR's workforce was, in general, quite skilled. For example he reports that in 1991 there were 35 million specialists (skilled workers and professionals) and 82 million skilled blue collar workers. Graduates from new vocational training schools had increased annually. Over 33 million workers and 10.5 million managers and specialists were being trained on an ongoing basis that year. So the new training challenges were more related to rising unemployment than to the skill level of the workforce, particularly to structural unemployment. However, with the changed employment situation of the 1990s, replacing labor shortages through labor surpluses and increasing retraining and related support programs became critical. Many workers had a narrow range of skills which frequently failed to fit the emerging occupational structure.

The author feels that "the scale of retraining" at this time was inadequate. The average Soviet worker was less well trained than his counterpart in Europe. Most workers were used to staying with a given enterprise their entire working lives. With the move to a market system, businesses questioned the wisdom of retraining, given the uncertainty of long-term worker tenure. So in 1991, the USSR initiated a reorganization of their retraining system, establishing *formal training/retraining centers*.

Privatization

Samodorov views *privatization* as a major component of USSR reform efforts under Gorbachev. The main strategy implemented during that period was the establishment of joint stock companies in place of public enterprises. These often involved shareholding by employees. By the end of 1990, over two thousand industrial enterprises, approximately two hundred large construction firms, thirty-three thousand small businesses, and eight hundred municipal and public transportation enterprises were placed under a lease system. Based on a survey of enterprises, those defined as unprofitable were rapidly privatized. In the agricultural sector, private farming began in earnest in 1989, replacing a portion of the collective and state farms, and by 1990 there were approximately one hundred thousand private farmers.

A new *Union of Lessees and Employers* covered more than ten million people. The *Scientific Industrial Union* incorporated many of the largest enterprises and associations. This Union represented two-thirds of the USSR's industrial output. Even so, Samorodov reports that only about ten percent of the total labor force was employed by private sector companies.

Unions continued to grow in power, even though they were part of new three-way partnerships. Their new status under *Perestroika* gave them independence from political and state institutions, Samodorov explains, and the opportunity to provide legal and social protection to workers in the private sector. Laws regarding unions assured equal rights for all unions, whether in the public or private sector, and permitted them to participate in negotiations over a range of issues, including their interest in wage indexation.

But the author comments that few managers of enterprises in the newly privatized businesses had training or experience in how to operate private sector market-oriented companies. As a result, management training was accelerated, often utilizing experts outside the republics.

Some Conclusions

While the independent republics that followed the dissolution of the Soviet Union continued to favor the transition to a market economy, their economic health remained problematic. Unemployment continued to rise. Retraining centers were slow to function. The most significant challenge for governments was the development of efficient, effective labor market policies that could reduce the negative social consequences of the market reforms.

Editor's Note

Alexander Samorodov is with the Employment and Development Department of the International Labor Organization in Geneva, Switzerland. For two additional references relevant to the issues the author addresses, please see:

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For additional references on the former Soviet Union, please consider the following:

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Editorial Commentary

The articles in this international section of the journal have focused on a range of economic and employment issues facing all industrialized nations in the 1990s. Major efforts to reform and restructure economic activity in the context of unprecedented international competition are having a significant impact on cyclical and structural employment in these countries.

Some of these nations are in a postindustrial phase of development. Others are in transition from collectivist, authoritarian regimes to social democratic market economies. But they share a major policy challenge: to increase economic efficiency and competitive performance while preserving socio-economic fairness and equity.

Many advanced and developing economies are experiencing substantial political change in this decade. How politics will intersect with economic development goals and the pace of technological change is yet to be decided. This web of complex relationships will ultimately affect what employment and training professionals are able to contribute in resolving employment problems, and in taking advantage of innovative workforce and workplace possibilities.

At the National Level

Editor's Introduction

In the remaining part of this section on Evaluation Issues and Activities, we turn to the issue of the coordination/integration of workforce development programs and services and their accountability requirements. We first address this issue at the national level, then at the state/local level. In discussing expert opinion and research focusing on coordination, we see the concept of *workforce preparation systems* gaining wide acceptance at all levels of government. This concept has been welded to two existing characteristics of our employment and training efforts — i.e. decentralization and privatization. The new emphasis is on system-wide policy development, strategic planning, simplified and coordinated service delivery, and a common concept of accountability at the state and local levels. In this movement toward system development, the role of the federal government is yet to be determined. Defining rights and responsibilities at all levels is now laced with concerns about how we are to judge the performance of separate programs, and programs coordinated within workforce development systems. In the next series of articles we obtain a snapshot of federal efforts to integrate human services, explore some of the problems in the existing E&T system now well identified through process and outcome evaluations, and discuss some of the issues involved in developing strategies for measuring and judging performance — both in separate programs and in workforce systems.

■■

Some Thinking About E&T Coordination at the National Level

In this article we trace a bit of the history of national-level coordination efforts — admittedly a very selective piece of that history. We look at an interesting but little-known review of coordination efforts in 1991 prepared by the Inspector General's Office in the U.S. Department of Health and Human Services, and at a more recent series of reports produced by the U.S. General Accounting Office.

Lessons from Past Federal Efforts to Integrate Human Services Management and Delivery

A rather extensive literature has accumulated regarding human services integration since the 1970s. *Services Integration: A Twenty-Year Retrospective* is an eye-opener in this respect. The tragic conclusion of this report, however, is that over the long haul "service integration efforts have had little institutional impact on a highly fragmented human services system." The barriers the report identifies are familiar: the system is too large, complex, bureaucratic, professionalized, and specialized. It lacks powerful supporters advocating coordination. And its funding arrangements mediate against coordination and integration.

Studies of Services Integration: Some Results of Interest

Twelve reports detailing studies of service integration conducted between 1972 and 1987 are reviewed for their major findings. Figure 1 provides an overview of some of the results these reports share in common.

Recommendations in the IG Report

The goal of earlier integration efforts, the report says, was major comprehensive system reform — too high an expectation, the analysts claim. The evaluators suggest a more modest goal that reflects satisfaction with shorter-term, more incremental accomplishments.

The Inspector General's report also recommends a service provision focus on clearly-defined target groups, consistent with more manageable goals. Both recommendations underline the importance of goals which can be sustained politically and organizationally.

The evaluators acknowledge that some degree of central control (federal control) over an otherwise complex and fragmented human service system is necessary. This would provide a needed external stimulus for integration efforts. Federal authority should have an oversight component also, according to the report, in terms of defining and measuring expected outcomes across programs. The analysts propose that an additional component of central control should be networking — that is, bringing individuals involved in integration efforts together to share information and build support across federal agencies and program bureaucracies. At the same time, the federal government needs to provide more funding flexibility, they suggest, in order to reward separate organizational entities for coming together.

An Impetus for Coordination: The U.S. General Accounting Office Reports

With increasing interest in deficit reduction, recently the U.S. Congress has requested a series of analyses giving attention to the proliferation of federally-funded programs in various program areas. Two general reports in the employment and training area, titled *Multiple Employment Programs,* were published in June 1992 and July 1993. Subsequently, a series of reports were produced under the same general title but with the following subtitles:

- *National Employment Training Strategy Needed* (June, 1993)
- *Conflicting Requirements Hamper Delivery of Services* (January, 1994)

Figure 1 • Overview

Some Constraints to Integration

1. Time constraints: service integration requires an evolutionary process that allows time to develop linkages, gain support and legitimacy, plan, organize, and implement.
2. Negative attitudes and behavior regarding the concept of service integration on the part of system personnel.
3. The lack of cross-training of staff and the development of "generalists."
4. Competition among providers.
5. Unclear accountability expectations.
6. Differing funding rules/regulations.
7. Different funding cycles, and fluctuations in the type of funding and funding levels leading to an unsure resource base.
8. Differing program rules and procedures.
9. Lack of timely, comprehensive and relevant data.
10. High administrative costs.
11. Organizational territoriality and political opposition.

Some Lessons

1. Moderate-scale service integration efforts are often more successful than large-scale comprehensive human service planning.
2. Human services organizational networks must be adapted to local environments.
3. Linkages are more readily developed in stable rural environments than in large urban areas.
4. Staff co-location often enhances coordination.
5. R & D funds are essential.
6. Effective leadership and consensus-building are necessary.
7. Long-term planning is critical, including setting goals and developing strategies for service integration and its funding.
8. Political support is required.

Major Benefits of Integration

1. Improved service delivery accessibility.
2. Greater continuity.
3. Increased efficiency.
4. More effective assessment of client needs, and strategies for responding to them.

- *Most Federal Agencies Do Not Know If Their Programs Are Working Effectively* (March, 1994).
- *Overlapping Programs Can Add Unnecessary Administrative Costs* (June, 1994).
- *Overlap Among Programs Raises Questions About Efficiency* (July, 1994).
- *Major Overhaul Needed to Create a More Efficient, Customer-Driven System* (February, 1995).

Conclusions in the Reports

In the two earliest reports, the GAO found that 125 federal programs were providing some form of employment and training assistance to out-of-school youths or adults not enrolled in advanced degree programs: 49 in the U.S. Department of Education; 30 in the U.S. Department of Labor. Many of these provided similar services and other assistance to overlapping client populations. A number of problems were occurring:

- The federal network of employment and training (E&T) programs was sufficiently fragmented to be creating difficulties for workers, employers and program administrators.
- A lack of access for potential applicants to information about these programs was creating confusion and frustration for those needing various kinds of services.
- Needs assessments were often being made by service providers with a vested interest in particular service "treatments."
- Assessment and job placement assistance were often duplicative and wasted resources.
- Programs were not tracking participants' progress through programs or their outcomes effectively.

In the midst of these problems, however, the GAO was finding that a number of states were reorganizing their E&T efforts to increase the coordination of service delivery at the local level. The GAO analysts recommended this kind of energetic coordination movement at the federal agency level, and the development of a national E&T policy and strategy.

In the January 1994 report, the GAO summarized results from an intensive review of nine E&T programs primarily serving the economically disadvantaged. They found them to have similar goals, often to serve clients with common characteristics, and to have parallel but separate service delivery systems. These attributes, they concluded, led to unnecessary administrative costs. The evaluators also discovered conflicting eligibility requirements and differences in eligibility criteria, complicating the eligibility determination process across programs. And differences in annual operational and budgeting cycles hindered administrators in coordinating their services with those of other programs.

The February 1995 report characterized the existing E&T system in this way:

- It was fragmented organizationally and in terms of service delivery despite common goals, overlapping client groups, and similar services.
- It was wasteful of resources.
- Its administrative structures and functions overlapped.
- Separate funding streams reinforced program territoriality.
- It was difficult for clients and employers to understand ways to enter and access the system, and learn about its services.
- There was considerable data inconsistency across programs even though measures were being collected on similar variables.
- There was a lack of objective information about programs for management and oversight purposes. Information systems did not allow analysts to learn about relationships between client characteristics, services and outcomes.
- Only modest E&T gains for participants were identified in program evaluations.
- Employers had difficulty obtaining qualified workers from the E&T system.

Elements of Effective E&T Systems

The GAO did not hesitate to suggest what an effective E&T system might look like. It should:

- Be customer-driven rather than program-driven.
- Provide easy access to services.
- Involve an efficient use of resources.
- Offer a wide variety of E&T services.
- Be accountable for the results.
- Afford flexibility at the local level in determining how best to meet community needs.
- Move toward a consolidation of programs.
- Have clear points of entry to the system and identifiable pathways through the system for customers.
- Negotiate a common set of requirements and administrative procedures across programs.
- Design its service delivery strategies in partnership with employers and unions.
- Develop a data collection system capable of tracking participants, the services provided to them, and their outcomes across programs, in-state geographical areas, and states.
- Reduce administrative staffing for the system to a minimum.
- Develop clearly defined goals, measurable objectives, and performance standards.
- Utilize evaluation strategies for learning about the system's effectiveness that are pragmatic as well as scientific.

The GAO's assessments and recommendations generally coincide with recent Department of Education and Department of Labor initiatives in education, training and employment, with state-level coordination efforts, and with local-level E&T agendas.

These initiatives and efforts are moving workforce development in the direction of greater integration through state/local, private/public systems that are guided at the federal level by a general policy and strategy and by general accountability parameters, but which give states the major responsibility for pulling programs, services and data together and developing methods for establishing system accountability.

Comments

The HHS and GAO reports give us an updated perspective on the problems and possibilities in workforce preparation. The concept of *systems of programs* is the outcome. The 1970s' and 1980s' notion of services integration was coordination at one level of such a system —- at the local service delivery level. The modern boundaries of "system" include the policy, planning, management and oversight levels as well.

Editor's Note

In a separate report produced in February 1995, the GAO provided a useful summary of its numerous reports and Congressional testimonies on the Department of Labor's programs between 1989 and 1995. The summary includes a review of DOL-funded process and net impact evaluations of these programs.

Measuring Performance in Programs and Coordinated Systems

This article focuses more specifically on some of the variables that are important to measure in performance systems coordinating data across programs. It also addresses major data sources for obtaining such measures. Two national reports are reviewed: one emanating from the vocational education system, one from the employment and training field. Although these reports were written at the beginning of extensive state-level experimentation with comprehensive *workforce development systems,* the general themes are highly relevant to the measurement of performance in these systems, as well as to programs within them.

***Beyond Performance Standards* by David Stevens and Jinping Shi of the University of Baltimore.**

Prepared in 1994 for the National Center for Research in Vocational Education (NCRVE), which is funded by the U.S. Department of Education, the subject of this short paper is *information production, expansion and coordination.* Traditionally, employment and training professionals and vocational education specialists, and those who evaluate these different sets of programs, have practiced in relatively separate worlds. Beginning in the late 1980s, and now in the 1990s, Presidential initiatives and federal legislation have been bringing these worlds together, albeit gradually and sometimes reluctantly. At the same time, new workforce preparation councils and boards have been struggling to bring these professional territories together in a new way at the *state* level, at the same decisionmaking table.

These new federal and state coordination efforts have informed each group of experts about the other's professional backgrounds, education, experience, knowledge base, culture and linguistics. As a result, these highly trained individuals are taking greater interest in one another, and each other's policies and strategies for establishing accountability. Not unrelated to this new accomodation, there is significant movement toward a beginning consensus about the meaning of *performance management.*

In this context, Stevens and Shi focus on a major issue in performance management, the relationship between vocational educational "treatments" or interventions, and employment and earnings. Several questions concern them:

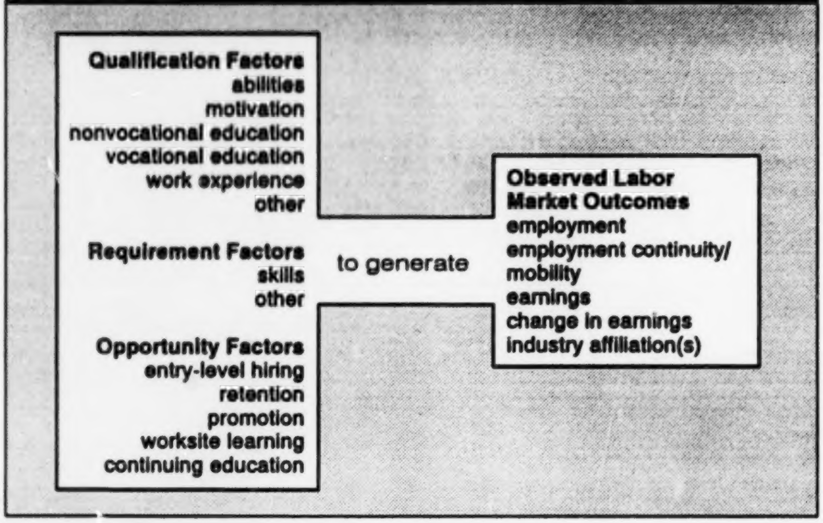
- What does information about this relationship tell us?
- What variables should be given attention?
- How should these variables be measured so that the indices are reliable and valid?

Some Useful Variables in Studying the Relationship Between Vocational Education and Employment/Earnings

The authors propose several categories of variables that should be considered, and which are often absent from databases. Figure 1 lists these, as excerpted directly from the report. The authors propose that a training student's labor market status can be thought of as a joint outcome reflecting three sets of influences: the student's qualifications, the skill requirements of employers, and employment opportunities. The multiplicity of influences underscores the conclusion that we should not expect any *single* cause-effect relationship to exist between vocational education and labor market outcomes.

To reinforce this position, the authors refer us to previous national assessments of vocational education that reached a similar conclusion. The National Institute of Education's 1981 *Vocational Education Study,* for example, stated that research results concerning this relationship could not be interpreted as an assessment of *the effectiveness of vocational education programs* — because of general data limitations, but more importantly because of the difficulty in attributing either economic or noneconomic outcomes to participation in various kinds of vocational education training. And the authors report that the final monograph by the National Assessment of Vocational Education in 1989 concluded that "institutional

Figure 1 • Vocational Educational Labor Market Outcomes



performance may reflect not only differences in program quality but also differences in the types of students served." Sheets and Shi clearly seek greater appreciation of these complexities on the part of managers and evaluators.

Qualification Factors. These factors refer to attributes employers tend to consider in making a judgment of a potential worker's qualifications, in terms of initial hiring, retention in employment, skills training, subsidized education, or promotion. For example, evidence of having reached a certain educational threshold, such as possession of a certificate or degree, is a significant influence. The national skills board, part of *Goals 2000,* is expected to reduce dependency on *program completion* as a threshold, substituting instead *skill competency* thresholds consistent with the establishment of industry requirements and standards.

Another attribute may be an employer's *recruiting strategy.* The authors acknowledge that "the value of an attribute as a discriminator among candidates falls as a fraction of those who offer the attribute rises." However, they claim that in instances where fewer potential hires exhibit a particular valued asset, the qualification factor may enhance or diminish labor market outcomes associated with the training institution or program involved. Such qualification influences complicate performance measurement. For instance, the use of UI wage record data in the absence of additional information can either help or damage a vocational program. The message is that where you are dealing with more than one influence on multiple outcomes, the interpretation of data on relationships between these variables must be carefully qualified.

Requirement Factors. The requirements of employers interact with the qualifications of potential workers, making it difficult to understand causal relationships between training and employment outcomes. Sheets and Shi point to problems faced in the *Skills Standards Project,* funded jointly by the U.S. Departments of Education and Labor, in agreeing on a definition of skills standards for industries. Two steps are involved: 1) defining the industry itself, and 2) deciding whether the standard will be based on one of three kinds of thresholds — *entry-level* performance, the *typical* performance of those working in the industry, or *leading-edge* performance.

In reality, each type of definition is influenced by changing technology, job availability and the qualifications of workforce candidates. Although UI wage record data can offer an opportunity to understand more clearly how worker qualifications and employer requirements fit, an intervening variable in this relationship must also be considered, namely *opportunities.*

Opportunity Factors. Job availability and the nature of available jobs are two major opportunity factors. In a fast-paced economy, it is not possible, the authors recognize, to align skill acquisition with its use when the timeframes are short. However, worker qualifications and employer requirements mean little if there are limited employment opportunities.

Isolating Cause-Effect Relationships from a Complex Mix of Influences

The authors' ultimate goal is to improve vocational education managers' understanding of the mixture of influences affecting labor market outcomes, and how these tend to define the relationship between vocational educational interventions and employment and earnings. The challenge, they say, is for managers to have access to enough appropriate measures to permit them to tease out the effects vocational programs may be having on hiring and retention, and to merge this information with a database on employment outcomes. The use of wage record data is analyzed in this context, and the authors' conclusion is that it *is* a useful database for this purpose.

Examples of fruitful coordination of databases, which include variables influencing employment outcomes plus outcome information, were drawn from a four-state consolidated database developed in 1991 by *The Jacob France Center* at the *University of Baltimore.* The goal of this project was to illustrate how wage record data could be combined with administrative data from state vocational education systems in order to conduct more extensive and useful management analyses. The project was successful in raising managers' awareness of ways they could learn more about patterns in student experiences following their participation in programs.

Earnings Profiles

One example from the Center project was the identification of distinguishable patterns in earnings profiles, which corresponded to descriptions of whether and when students experienced progress on a career path — that is, in jobs that involved "sustained affiliation with a single employer, and an observable increase in annual earnings." Stevens and Shi identified five patterns:

- *The traditional career path pattern:* immediate and sustained earnings growth.
- *The delayed-start pattern:* low initial earnings following by sustained earnings growth.
- *The short-circuited pattern:* initial earnings growth followed by earnings reaching a plateau.
- *The one-step improvement pattern:* low initial earnings with discontinuity, followed by a higher but flat earnings path.
- *The dead-end pattern:* flat or declining earnings over time.

The importance of distinguishing patterns, the authors believe, is in their use in monitoring earnings over time. The emphasis in such monitoring is on understanding the "horizontal trajectory of earnings over time," rather than depending on single point-in-time snapshots. The longitudinal approach permits managers to look both at *levels* and *directions* of earnings.

Cautioning that these earnings profiles should not be treated as gospel, the authors nevertheless propose that such ideal-type constructs contribute usefully to the debate over the relevance of training-related *placement standards*, and over the timing and use of *snapshot measurements of earnings*. Neither do the profiles allow clear-cut cause-effect judgments to be made. More must be known about a student's education subsequent to the vocational education treatments being examined, or about the work-based learning acquired.

Even so, the Sheet and Shi analyses of data on the labor market experiences of ex-vocational education students three and one-half years following their completion of this education are very innovative. They alert us to important issues in data reliability and validity, and to the advantages of consolidating appropriate indicators for a range of critical variables in better understanding the effects of training programs.

Wage Record Information Systems. Office of Technology Assessment, U.S. Congress.

Last year the *Office of Technology Assessment* (OTA) reviewed efforts by the *National Occupational Information Coordinating Committee* to encourage the use of UI wage records for conducting policy studies and monitoring the outcomes of vocational education. The Committee had previously designed a series of demonstrations to explore the technical problems in producing and using wage records for this purpose. Subsequently it was to develop procedures for maintaining a nationally-accessible database for wage record information. The Committee also contracted with MPR Associates to design a training guide to assist states in using wage record data for studying the outcomes of vocational education and other programs.

The purpose of this OTA research paper is to summarize what has been learned from the demonstrations and from other studies, to identify data quality issues, and to make suggestions about how the Congress could deal with some of these issues in the process of encouraging the development of a *reliable, comprehensive wage record database.*

Purposes Served by Wage Record Information

The OTA paper suggests four major purposes for UI wage data:

- To conduct research on trends in the employment and earnings of workers, and the employment effects of alternative strategies of income support, education, training, and social services.
- To monitor and evaluate specific education, training, work/welfare and related social programs regarding their effects on the economic welfare of individuals, in order to make improvements — that is, for performance management.
- To provide the public with information about the outcomes of programs, and employment trends in different industries, occupational sectors, and geographic areas that support their decisions as customers of service.
- To enforce compliance with policies concerning eligibility and payments in other social programs.

These purposes can be served by UI data universally, the report says, since 90% of the U.S. working population is included in the UI wage record database. And three key data elements — the SSN of all employees covered by UI, their quarterly earnings, and the industrial code or business name/address of the employer — are collected by all states. Furthermore, longitudinal earnings histories can be constructed because state agencies accumulate employment and wage data over time.

Obtaining Additional Employment and Wage Data

For individuals not included in state UI information systems, information must be obtained from other sources, such as from other states, the federal government or educational institutions. This missing data is important, the OTA report states, since analyses that compare the outcomes of educational and training programs can be misinterpreted in the absence of such data. Obtaining data from other sources can be complicated, however, requiring specific data-sharing agreements that assure confidentiality.

To address the latter issue, the 1992 JTPA Amendments requested the Bureau of Labor Statistics (BLS) to develop a plan for creating a *National Wage Record Database* (NWRD), which would pool all wage records in existing state unemployment insurance systems into a national database available to all states. Core data elements were to reside in the states, or be sent to a central data bank operated by the federal government. The database was to consist of a national sample of individuals, samples within states, or the entire working population.

Both the cost of maintaining a national database and the confidentiality challenge remain a concern, according to the OTA report. The BLS has considered proposing a statutory strategy for resolving the privacy problem. Or data confidentiality might be assured if wage record information were classified as *statistical* rather than *administrative* information. Another concern discussed in the report is whether the development of such a database would undermine the primary purpose of the UI information system in the eyes of employers and the public. Beyond these issues, there is some anxiety that the use of a national database for enforcement purposes might erode its function for *performance management* and *evaluation.*

The Level of State Use of UI Wage Records

Under the 1988 amendments to the *Deficit Reduction Act,* states were required to collect quarterly wage reports from all employers as part of a new *Income Verification and Eligibility System.* This vastly increased the number of data-sharing agreements. The *Na-*

tional Commission for Employment Policy reported a 50% growth in such agreements between 1986 and 1991.

The program providing the greatest experience in using UI wage records to track outcomes has been JTPA, the OTA report concludes. The use of JTPA data was a sufficiently important option that the U.S. Department of Labor funded demonstration projects in 1993-1994 to study this use vis-a-vis follow-up questionnaires for judging compliance with JTPA performance standards.

Meanwhile, in Florida's *Education and Training Placement Information Program,* UI earnings data were being combined innovatively with data from the state's community college and university systems, the public schools, the state corrections system, and federal agencies. Employers were also surveyed to determine the occupational categories of all students tracked within the system. A common set of outcomes measures was used: quarterly earnings; weeks worked; occupations; further enrollment in adult education, community college or higher education; and movement into the military. The consolidation permitted analyses of outcomes for all state education, training and employment programs. This comprehensive data bank has become a basis for state strategic planning and budgeting.

In 1992, the *National Governors' Association* reported that 20 states had explored the use of UI wage data for tracking vocational education students, and 12 were using these data on a regular basis. Washington State, for example, had combined 1) wage record data across five states within its region with 2) enrollment data from the state's university system, and 3) employment information from the U.S. Department of Defense.

Some states had also estimated costs. In reviewing states' information, the National Commission estimated average development/operation costs for a wage record information system as approximately $1.75 per person tracked. In vocational education, one expert estimate was $3/person. But start-up costs were considered to be higher than long-run average costs, and there was considerable uncertainty about what cost categories were included in these estimates. Also, no estimates were made of the cost of entire management information systems of which wage records were a part, to determine what proportion of the costs the wage record portion represented.

One study reported by OTA, conducted by the National Commission, compared the costs for UI tracking with the JTPA follow-up system using questionnaires. The estimate for the JTPA telephone survey was $19/per completed interview. In this respect, the Florida system provided a reasonable benchmark regarding the cost of comprehensive information systems — approximately sixteen cents per person tracked, based on tracking 1.8 million people. Clearly there are large economies of scale.

The OTA report asks us to view costs in the context of the length of time individuals are tracked. Attrition in survey samples increases with the length of follow-up. Such problems are virtually eliminated by the requirement in UI for a quarterly submission of earnings information. And the difficulty in locating members of the follow-up sample using the survey raises costs. The Commission estimated that the UI method cost only about one-fifth as much as the survey strategy.

Quality Problems with UI Data

But the world of information systems is never perfect. The OTA report takes the position that *administrative* sources of data are more difficult to use and interpret than data from *surveys* where samples of respondents can be randomly selected and response categories are under the control of the analyst. And there are some other problems. These were the major ones to which the report gives attention:

- Wage record data are subject to several kinds of systematic errors.
  - Employers' tax liabilities may cause respondents to report differently to the UI system than they would otherwise — that is, they may classify themselves incorrectly as belonging in industries or jurisdictions with the lowest tax rates.
  - Employers may not report nonwage payments as accurately as they do wages and salaries.
  - Employers may report severance payments to dislocated workers only after these workers are terminated from employment.
  - UI system policies may change, leading to changes in data definitions and measures that are poorly communicated.
- The "matching rates" for the individuals tracked in the UI system may be too high or too low.
- UI data may need to be obtained from multiple sources, with the possibility of inaccuracies.

The choices made about the number and kind of sources used can affect the "matching rate", or "the percentage of all persons being tracked for whom some positive identification of employment, unemployment or other activity appears in the outcome data." This rate, the OTA report stated, is analogous to the response rate in questionnaire-based surveys. The higher the matching rate, the more trustworthy the results of data analyses.

The OTA report says there are no clear-cut rules for deciding what the matching rate needs to be in order to avoid bias. The suggestion is that this determination will require time, the accumulation of state experience with different configurations of data for different purposes, and specific studies comparing UI data with data from other sources.

Issues to explore are differences in 1) the rates of unemployment among the group tracked, 2) where these individuals are employed, 3) how they earn their income, and 4) the likelihood of their acquiring education, joining the armed forces, going to prison, or engaging in another activity. People who receive UI payments can be positively identified. Those who do not receive them cannot be. More vocational education graduates continue on to further education than do JTPA completers, for example, and therefore the latter's matching rates are higher.

To increase the matching rates for different groups, the number of sources for outcome data must be expanded, the report suggests. With vocational education students, for instance, outcome data can be requested from neighboring states, the home state's higher education system, and the federal government. Some experts say a matching rate of 90% is needed. *It is clear that a performance management system based only on wage record data from one state could be very misleading.*

The report also points out that local changes can strongly affect the results of analyses "when comparisons are made among specific institutions and programs rather than among statistically-selected samples of individuals or institutions covering much larger areas."

- *Earnings data are affected by the quarter selected for reporting them.* Some states compute annualized earnings. If the first quarter of the year is used as the basis, actual earnings will be overstated. Earnings are more accurately calculated if the fourth quarter is used. Therefore, in performance management systems where earnings are estimated on the basis of the first quarter's worth of earnings, the results of analyses are likely to punish those programs with the larger proportion of graduates/completers. Estimating earnings from four quarters of data, or adjusting for the quarter used could yield a very different result.
- *Analyses of wage data cannot control for program effects due to differences in the background characteristics of individuals.* Wage records do not include information on demographic characteristics, social background, or years of work experience — all of which are related to employment and earnings. This information can come from program Management Information Systems, but dependence on these information systems would tend to limit wage record studies to populations of individuals for whom there is such data. Without such information, employment and earnings trends emerging in analyses may be due more to changes in the composition of the labor force than to program interventions. And the differences in outcomes may be more related to differences in the characteristics of program participants than to program treatments. In terms of performance management, the OTA reports says, this lack of adequate data could lead to "creaming."
- *Wage records do not distinguish between part-time and full-time employment.* There can be large differences in the earnings estimates, the OTA report states, due to very small fluctuations in the proportion of individuals working part-time rather than full-time. If "weeks worked" is included as a data element, analysts can restrict their studies to full-time workers. However, only seven states were collecting this element in 1994.
- *There are differences in the accuracy of UI records vis-a-vis survey information.* The *New Jersey Unemployment Insurance Re-employment Demonstration Project* found that earnings estimates for a sample of dislocated workers were higher if based on UI data on the first quarter after unemployment, than if based on surveys. In the second and fourth quarters, they were lower. The higher figures in the former case were due to severance payments; the lower figures were due to a growing number of workers occupying out-of-state jobs. The *National JTPA Experiment* found the same phenomenon. Estimates of earnings of low-income individuals differed significantly between wage record and survey data.
- *Earnings estimates may be different for different client groups.* Low-income, disadvantaged populations appear to have more earnings from unreported sources than dislocated worker populations, for example. Systematic differences may then persist in the accuracy of earnings estimates for these groups.
- *Differing earnings estimates can be related to the scientific sophistication of follow-up surveys: sampling procedures, questionnaire construction, interview formats, and methods of analysis.*
- *Wage information recordkeeping in the UI system can be a source of error.* No large-scale audits of the system have been conducted, therefore the nature of errors will not be known until the large BLS audit is completed. But the OTA analysts think it is likely that the quality of recordkeeping varies across states.

Some Conclusions

The OTA report concludes, as do most researchers, that "bad data may be worse than no data." They recommend that studies look at the relationship between data quality and system design, as well as the other issues identified.

The report offers recommendations relevant to BLS's plan for the creation of a national wage record database. These are useful in framing information production issues. Given that the purpose of a national database would be *policy research, program evaluation* and *consumer information,* the report includes these suggestions:

- Congressional review of states' experiences with the UI wage record system, the improvement of state studies using UI wage data in terms of their quality and utility, and the use of these data within performance management systems.
- Improvements in the federal government's assistance to state user agen-

cies in utilizing wage record data in comprehensive workforce development systems.

- Development of federal/state demonstration projects to encourage the development of regional consortia that can promote the use of wage record data.
- Conducting of systematic research at the federal level on the use of wage record data in policy studies and performance management systems, including program-specific and workforce system-oriented evaluation.

Some Comments on the Two Monographs

Interest in strategies for establishing accountability in public programs and systems has never been more intense. Despite barriers to coordination and integration, the federal government, the states and local communities are making strong efforts in the 1990s to collaborate, coordinate and consolidate workforce development programs, and to incorporate within that movement a solid notion of how to judge process and performance.

Whatever the general approaches taken in establishing accountability, the adequacy, quality and accuracy of the information systems on which performance management judgments are to be based are critical issues. These two reports are useful in understanding some of these issues. They also force us to consider the potential imperfections in whatever direction we take in integrating information production, and encourage us to seek ever-better systems for making essential decisions.

Editor's Note

For more detailed information about some of the references mentioned, as well as related publications, please see the following:

The Vocational Education Study: The Final Report. National Institute of Education, Vocational Education Study Publication 8, Washington, D.C.: U.S. Department of Education, 1981.

National Assessment of Vocational Education — Final Report, Volume I, Summary of Findings and Recommendations by J. Wirt et al. Washington, D.C.: U. S. Department of Education, 1989.

Using State Unemployment Insurance Wage Records to Trace the Subsequent Labor Market Experiences of Vocational Education Program Leavers by D. Stevens. National Assessment of Vocational Education. Washington, D.C.: U.S. Department of Education, 1989.

Using State Unemployment Insurance Wage Records to Construct Measures of Secondary Vocational Education Performance by D. Stevens. Washington, D.C.: Office of Technology Assessment, U.S. Congress, 1989.

Systematic Bias in Earnings Data Derived from Unemployment Insurance Wage Records and Implications for Evaluating the Impact of Unemployment Insurance Policy on Earnings by P. Decker. Princeton, NJ: Mathematica Policy Research, 1989.

Policy Evaluation and Archived Wage Record Data: Limitations of Existing Data Sets by J. Bishop. Washington, D.C.: Northeast/Midwest Institute, 1989.

Employment and Earnings Dynamics in the 1990s: Policy Issue Needs and Potential Uses of Nationally Archived UI Wage Records by C. King. Washington, D.C.: Northeast/Midwest Institute, 1989.

A Feasibility Study of the Use of Unemployment Insurance Wage-Record Data As An Evaluation Tool for JTPA by J. Baj et al. Washington, D.C.: National Commission for Employment Policy, 1991.

Schools and Labor Market Outcomes by D. Crawford et al. National Center on the Educational Quality of the Workforce. Philadelphia, PA: University of Pennsylvania, 1992.

State Systems for Accountability in Vocational Education by M. Rahn et al. National Center for Research in Vocational Education. Washington, D.C.: U. S. Department of Education, 1992.

The School-to-Work Transition of High School and Community College Vocational Program Competers: 1990-1992 by D. Stevens. National Center on the Educational Quality of the Workforce. Philadelphia, PA: University of Pennsylvania, 1993.

State Capacity to Use UI Wage Records: The Vocational Education Experience by L. Amico. Washington, D.C.: National Governors' Association, 1993.

More About Performance Management

Reviewed in this article are two guides for developing performance management systems: *Getting Results: A Guide for Government Accountability* published in 1991, and *A Guide to Strategic Planning for Performance Measurement, Reporting and Improvement Systems* produced in 1994. Developed by the Council of Governors' Policy Advisors and the National Institute for Literacy respectively, these guides offer assistance to policymakers, planners and oversight staff in developing viable, useful accountability systems. Both guides direct their suggestions to state governments.

The Council of Governors' Guide

Authored by Jack A. Brizius and Michael D. Campbell, *Getting Results* was funded by the U.S. Department of Health and Human Services, and involved an array of experts on performance management. The authors explain that the guide answers a number of basic questions:

- What is a performance accountability system?
- What is the political and policy context within which accountability systems must be implemented?
- What are the key components of a workable accountability system?
- What are the fundamental queries that must be answered in defining such a system?
- What are the specific actions that need to be taken in implementing this kind of system?
- What are the problems and pitfalls in making comparisons and reporting performance?
- How can accountability systems be institutionalized within state government?

The appendix of the guide suggests a step-by-step progression toward completion of a design for an accountability system on the basis of which judgments can be made confidently about the quality of policy and program outcomes.

Defining Accountability

The authors' definition of *performance accountability* is at once useful: " a means of judging policies and programs by measuring their outcomes or results against agreed-upon standards." In this sense, accountability efforts provide a framework for measuring outcomes as well as processes, and organizes this information "so that it can be used effectively by political leaders, policymakers and program managers." Accountability systems are to provide feedback of information to these important groups so that policies and programs can be adjusted when needed. And they are to disseminate useful information to service providers, service customers, and the public.

Developing Accountability Systems

The authors make the usual observation that performance accountability differs from traditional assessments of "inputs" by focusing attention on changes in people's lives. However, they do not neglect the importance of studying *program implementation* as an integral part of performance management. Nevertheless, they emphasize the establishment of performance standards which they contend tie desired outcomes to longer-term program goals. These standards, they say, must be realistic estimates of expected outcomes which have been jointly developed by those judging performance and those being held accountable. Some criteria for system development are:

- The amount of resources used.
- The baseline skill levels or problems of those served.
- The intensity of a service or treatment.
- The power of the incentives used to produce change.

It is to the authors' credit that performance accountability systems, as they define them, are not the end-all in judging policies or programs. Judging effectiveness, they say, requires rigorous controlled impact evaluations. This conclusion is consistent with other current definitions of the boundaries of performance management systems — i.e. *they tend to isolate net impact evaluation from performance management.*

Characteristics of Accountability Systems

The authors distinguish also between *policy accountability* and *program accountability.* Policy accountability is viewed as giving attention to the outcomes for whole groups or classes of people, not only for those who have participated in particular programs. Program accountability looks at outcomes only for those served by a program or group of programs, and at how programs are operating. Brizius and Campbell describe usefully the key elements of state performance accountability systems, in the ideal:

- A focus on outcomes.
- The use of a few selected indicators to measure performance.
- The generation of data over time.
- Continuous reporting of outcomes.
- The use of performance information to create incentives to service providers to improve outcomes.
- The use of performance information as a basis for developing sound questions for evaluation purposes, and for conducting competent evaluations.
- The utilization of performance information in making policy and program management decisions, and improving policies and programs.
- The testing of policy premises.

These benefits of performance accountability, or performance management systems, are qualified by some limitations. Again the authors take the position that such systems are not capable of determining the ultimate impact of programs and policies on people. Because impact evaluations are difficult and expensive, they say, net impact evaluations are "seldom used as *management* tools." Therefore performance management systems cannot definitively pronounce policies or programs failures. The author's persistence in viewing evaluation as something apart from performance management is an unfortunate and possibly misguided conclusion, since in general net impact evaluations produce the most accurate information for both policy and management use, and are not always expensive.

More to the point, accountability systems are considered by the authors to be limited by *data quality* and the *accuracy of outcome measures*, problems that have a significant influence on evaluation activities as well. The authors also recognize that accountability systems can involve disincentives on the part of service providers to respond directly to the needs of clients given their situations and circumstances. This is particularly true, they say, when accountability systems are linked closely to the allocation of resources.

The Design of Systems

The authors explain the design of performance accountability systems as answers to five key questions:

- Are the goals and objectives of the policy or program stated clearly?
- How can progress toward these goals be measured?
- How can incentives be accomodated?
- How will the data be reported and used?
- How can policy development and program management be coordinated to promote accountability?

Realistic, measurable goal statements are an essential first step. Policy goals, in the guide, are essentially *systemwide* goals. Program objectives are more specific statements with shorter timeframes. Developing indicators of progress toward goals and objectives is the most difficult step, according to Brizius and Campbell. Such indicators should include both *process* variables and *outcome* variables. Performance standards then rely on the selection of these indicators. The authors caution states not to develop formal standards prior to the application of a policy or the operation of a program — a wiser process is to *develop and test initial standards against actual program performance and adjust these standards based on experience with their use.* Apart from premature use, performance standards have been greeted with mixed reviews because they have often been linked to funding decisions. Also, local economic and political conditions clearly affect performance but are not considered realistically in the context of uniformly-applied standards.

Some Conclusions

The authors are well aware that accountability systems can have short lives if their advocates are not careful in designing and using them, and in mediating traditional objections to performance measurement. When accountability systems identify problems, there will be natural pressures to dismantle them.

A number of strategies are suggested for maintaining these systems. The central theme is ensuring that key stakeholders have access to and use accountability information: political leaders, policy staff, legislators, and legislative staff, program administrators, service providers, consumers of service, the press and the public.

The National Institute for Literacy's Guide

While the Institute's monograph is directed toward developing accountable state adult literacy systems, particularly the states that participated in the *Academy on Performance Accountability* held in Washington, D.C. in 1993, the insights are widely applicable. The guide is to assist states in establishing *statewide outcome-oriented performance measurement, reporting and improvement systems*, formally referred to as PMRISs. Their elements are generic.

A PMRIS measures outcomes, reports this information to key actors, utilizes it to continually improve state policies guiding programs and the quality of those programs. Its structural core is an *interagency team* composed of directors of relevant statewide programs. The team is the vehicle for making sure that outcome information is collected and reported, that it addresses policy resource allocation, management and service provider needs, and that coordination across programs is maintained. The authors outline a series of steps in constructing a PMRIS, which are presented in Figure 1.

In this scenario, a vision statement is a *preferred future* that explains the conditions and life quality to be achieved in the state. Benchmarks are *measurable goals for the state as a whole,*

Figure 1 ▪ Accountability Essentials

1. Define *vision* and *benchmarks*.
2. Define *policy outcomes*.
3. Identify *performance measures for policy outcomes*.
4. Identify *program outcomes*, related to policy outcomes.
5. Identify *program performance measures*.
6. Identify *target populations*, related to policy and program outcomes.
7. Compare *existing service delivery patterns with service needs:*
   - Determine what *program interventions* are necessary to achieve outcomes for target groups.
   - Determine whether existing program can achieve these *outcomes*.
   - Apply *quality standards* to existing and new programs.
8. Collect data & communicate results:
   - Define the *audiences*.
   - Develop *sample reports* for different audiences.
   - Negotiate *data collection protocols*.
   - Collect the data.
   - Report the results.
9. Use information from PMRIS to improve program interventions.
   - Link *inputs to processes*.
   - Identify *constraints and enabling influences*.
   - Plan for *continuous improvement*.
10. Use information from PMRIS to *adjust resources and policies*.

consistent with the vision. Benchmarks permit the tracking of progress toward the vision over time. A rigorous definition of vision and benchmarks, however, is not viewed as a necessary condition for defining policy outcomes — even though the latter need to be generally consistent with these abstractions. The authors are insistent, however, that policy *outcomes* be *quantifiable*.

In logical sequence, defining program outcomes is a next step, consistent with policy outcomes. These outcomes are defined by the authors as *the statuses to be achieved by programs and their participants if policy outcomes are to be achieved.* Performance measures are seen as *both quantitative and qualitative indicators* of such outcomes. These measures are considered the central element of the PMRIS. Performance measures are of three kinds, the authors say: *results-oriented* measures; measures of *program quality;* and measures of *participant characteristics.* These process and outcome measures are clearly the building blocks of any performance management and evaluation system.

Some Comments on Other Performance Management Approaches of the PMRIS

National-level conceptualizations of performance management systems are quite similar in their basic elements and meaning. They have given considerable direction to states at a time when states themselves are recognizing the need to integrate related programs and assure the accountability of multi-program systems. Most performance management concepts include measures of process and outcome variables, even though the systems are outcome-driven. This moderates the pendulum swings of the past several decades in which either process *or* outcome variables were the exclusive focus. This recognizes the strong interrelationship between 1) policy and program implementation structures and processes, and 2) the shorter and longer-term outcomes and impacts of related policies and programs — and the significance of this relationship in judging policies and programs.

The test of these well-conceived and logically explained ideal-type constructions of performance systems is the extent to which they work in practice. Historical attempts to coordinate separately-funded programs providing comparable interventions to comparable client populations have had mixed reviews. The new view of performance management depends on such coordination. Relevant to this issue is the National Commission for Employment Policy's 1994 position paper "Guiding Principles for Change," by Anthony P. Carnevale, the Commission's chair. The paper explores some of the coordination problems sustained historically, and makes the following recommendations for national-level efforts to increase coordination in the context of national and state efforts to build accountable workforce preparation systems:

- A national dialogue is needed on systemic reform of the national education and training systems.
- The consolidation of programs serving similar target groups should be endorsed.
- Two interim steps for enhancing coordination should be implemented: 1) the establishment of a central waiver authority outside the Executive Branch, and 2) efforts to make basic program requirements compatible.
- Broad planning and oversight responsibilities at the federal, state and local levels should be promoted.
- Information about "best practices" regarding planning and oversight functions and tasks should be made available to state and local administrators.
- More flexibility should be allowed in the development of state-wide and local-level planning councils or boards.
- Funds for state/local capacity-building should be provided.
- Comprehensive cross-program management information systems should be developed.
- A UI wage record database, including all states, should be developed at the national level.

Using Performance Standards in Establishing Workforce System Accountability

There is a high level of agreement among workforce development experts that a key element in establishing accountability in new state-wide workforce preparation systems is the development of *performance standards* consistent with system goals and desired outcomes. Unfortunately we lack a history of experimentation to rely on for insights regarding the appropriateness of setting standards for "systems" of programs. Even our exploration of the use of performance standards in separate major ongoing national programs is recent.

The longest running experiment is in JTPA. What we have learned about the implications of using performance standards in JTPA should be enlightening regarding the tradeoffs we may experience in applying standards to state workforce development *systems.*

One of the most astute analyses of the utility of developing and applying performance standards is Burt Barnow's chapter on "The Effects of Performance Standards on State and Local Programs," in *Evaluating Welfare and Training Programs* edited by Charles Manski and Irwin Garfinkel in 1992. The book began as separate but related papers commissioned for a national conference on evaluation methodology by its cosponsors, the *Institute for Research on Poverty* at the *University of Wisconsin-Madison,* and the *Assistant Secretary for Planning and Evaluation* in the *U.S. Department of Health and Human Services.* It is important to consider Barnow's position on performance standards as we move closer to national employment and training policy supported by performance standards, and to state-level workforce systems attempting to include standards in their performance management subsystems.

Some Background

The mandate to develop performance standards for major national programs, as a major tool in the accountability kit, began in the 1980s. It now applies to JTPA, JOBS, and the Food Stamp Employment and Training Program. Performance standards were to involve specific measures of desired outcomes, tempered by lessons from previous program evaluations regarding the actual level of success employment and training programs were having in increasing the employment and earnings of different participant groups, — and in the case of JOBs and Food Stamps, in reducing participants' dependence on the welfare system.

In the Manski/Garfinkel book, Barnow first defines E&T *performance management*, then outlines state and local objectives and behavior vis-a-vis standards, and ends with his view of how performance is measured, reinforced and rewarded. In the process we see some cautions emerging.

The Performance Management Concept

Barnow defines performance management as "a system whereby programs are systematically judged against specific objectives." The following are the main interrelated "parts" within the performance management "system:"

- *Performance measures:* indicators of the performance of the entities being judged.
- *Performance standards:* specific standards associated with each measure or indicator.
- *A standard-setting method:* the method for setting standards may be based on statutory regulations, managerial goals, performance levels in other programs, or on other factors — or on arbitrary decisions. The most useful, and perhaps the fairest, Barnow claims, is a rational method that is understood in the programs being judged, even though standards can be set to take account of factors that vary with the characteristics of the program being judged.
- *A rewards and sanctions system:* such a system is a way of benefiting programs that meet or exceed standards — such as through more program flexibility or funding — and sanctioning them for failing to do so. Sanctions may be mild, such as simply an absence of praise, to quite harsh, such as a loss of funds.

Barnow wants us to distinguish among three different concepts in talking about performance standards: *performance management*, the achievement of *economic efficiency*, and *evaluation*.

Performance management is concerned with the achievement of an array of program goals, Barnow says, including equity. It is an *ongoing* oversight activity that provides *continuing feedback* to policymakers, administrators and planners about key program processes and shorter-term program outcomes. Performance standards, within performance management, do not include *impact* measures, Barnow states, and are less intrusive than evaluations in terms of disturbing program operation. However, performance management systems lack a clear-cut "bottom line" (such as products sold) similar to variables that can be monitored in private sector activities.

Evaluation, Barnow proposes, focuses on program impact through single snapshots in time, using quasi-experimental or experimental research designs. *Economic efficiency* remains undefined, and its relationship to performance management and evaluation is left unclear.

These distinctions are not the traditional ones. The concept of "performance management system" often covers both *program monitoring* and *program evaluation*, and involves some effort to use measures of economic efficiency in the process. Program evaluation typically covers judgments of program organization and operation, program outcomes, net program impact, and the tradeoff between costs and benefits. In this sense it involves a study of both *program efficiency* (do the program's outcomes warrant its various costs?) and *program effectiveness* (does the program achieve its programmatic goals for those it is intended to serve?).

Performance management systems, as theoretical constructs, have tended to involve three key "accountability" functions: program review (against plans), program monitoring (for compliance with requirements), and program evaluation (to judge the efficient achievement of program goals). But all of these constructs emphasize the continuous feedback of evaluative information for continually improving programs, an emphasis missing till recently in the evaluation research literature.

The Need for Performance Management Systems

Barnow's rationale for developing formal performance management systems is significant. Briefly, such systems 1) identify poor performers and therefore permit corrections to be made, 2) locate high performers and reward them, thus helping to define "best practices" and providing evidence that there is organizational profit in applying them, and 3) maintain efforts in the direction of accomplishing the goals originally intended for the program. Identifying the ingredients in commendable performance also provides a practical basis for replicating those attributes. Furthermore, sustaining consistency with program goals reduces natural tendencies to redirect program activities toward other agendas, such as those responsive to political, cultural or organizational pressures.

Important Kinds of Performance Measures to Consider

Barnow identifies a range of variables for which specific measures should or could be developed within performance management systems:

Gross Outcomes

Gross outcomes are measures of a program participant's status at the time he or she exits from a program, or shortly thereafter, vis-a-vis certain desired outcomes — educational, skill training, employment, welfare reduction, etc. Exit status could mean at the completion of the services assigned, or simply at the point participants leave the program for various identified and unknown reasons. Barnow says that most of the outcomes measured in current national E&T programs are gross outcomes, because they do not necessarily reflect *program gains or losses*.

Outcomes such as completion of education, completion of skills training, placement in a job, and increased earnings in employment are standard program outcomes in E&T programs. If we were not able to compare the quality of educational, skills training or employment outcomes for program participants with comparable people who were not exposed to the program, we would designate these outcomes as the program's *gross* outcomes — meaning that we are unable to label these as better (a gain) or worse (a loss) than the situation similar people would experience in the absence of the program. If we were able to make the comparison indicated, we could then calculate the program's net outcomes (by subtracting any loss or adding any gain). These net outcomes are usually referred to as the program's *net impact*.

The main thrust of Barnow's argument is that gross outcomes are relatively easy to collect and analyze, and therefore constitute an efficient part of any performance system. He qualifies this by pointing out that performance standards that rely on gross outcome measures must adjust for differing client profiles. Otherwise programs will be sanctioned for not meeting performance standards, even though the characteristics of certain subgroups within the client population make it unrealistic to hold these subgroups' gross outcomes hostage to the same levels of performance as one does the others.

Net Outputs

Barnow is referring here to indicators of *gains*, such as in education, skills, work experience, wages, and job retention. He claims that developing such measures will require a comparison of different kinds of program interventions, or treatments, such as different types of skills training (basic education, preemployment, job-specific), which are difficult to quantify. The advantage of these measures, however, is that net earnings gains, can be considered to reflect the *market value* of varying kinds of training.

The problem is that different earnings gain measurement strategies may produce disparities in earnings gain estimates, leading to a mistrust of this version of program performance. Also, using the determination of earnings gains as the most prominent way to judge a program's achievements requires quasi-experimental or experimental net impact evaluations, which are not always appropriate or possible. Furthermore, Barnow cautions that primary reliance on a quantitative economic measure of performance runs the risk of precluding a consideration of significant program outcomes that are less tangible but may be as important or more so.

Inputs and Process Measures

Barnow views input measures, such as the characteristics of participants, as part of performance management systems. Process variables describing how service delivery is organized, what policies and practices are involved at each step in the service pathway, how many and what kinds of clients experience what steps, and what the "culture" of the program is like (staff attitudes and behaviors, for example) are clearly included in a competent performance management system. As an expert in designing and conducting net impact evaluations, it is understandable and important that Barnow suggests that *exclusive* reliance on inputs and process variables is a mistake.

Measures of Costs

Performance management systems must, Barnow believes, consider the use being made of resources. Identifying the total dollars spent in achieving key outcomes is one approach. Or costs can be reported for each major outcome, such as *cost per entered employment*. Separate cost measures give attention to *unit costs*, an approach Barnow thinks is very useful. But he cautions that if the cost measure is not properly combined with outcomes measures, it may "promote underinvesting in participants and serving participants who require less training." Omitting costs from the performance management system avoids a bias toward shorter and less intensive programs. The tradeoffs are difficult to reconcile.

Combining Performance Measures into an Overall Index

Barnow proposes that, in theory at least, it is possible to develop a single overall measure of the economic gains from E&T programs, such as "the present value of all earnings gains resulting from the program, or the present value of earnings gains plus welfare savings." While useful, this directs attention to a single indicator of performance, ignoring other outcomes.

To avoid excluding other program goals, such as service equity, performance measures can be developed which hold programs to more of their promises — for example, measures of the participation levels of client groups of special interest — which can be incorporated within performance standards (as minimum levels of participation.) Outcome measures can be tracked for different groups, and a different set of minimum standards developed for each. Employment retention may be a higher priority in some programs than earnings gains. The reduction of welfare rolls may be more important than any other outcome. Performance measures, and ultimate standards, Barnow suggests, can be developed so as to permit different expectations for program performance.

The challenge in the use of multiple measures, he says, is in linking a cluster of measures together such that an overall minimum level of performance can be established, and a reward/sanction system developed. A simple method is to count all performance measures equally and sum the scores. But Barnow warns us that adding scores may be undesirable. Some measures may be considered more important than others. Some may involve more variation than others, and therefore have to be weighted differently. An alternative is to group performance measures and require programs to meet a certain number of standards in each group.

A Rewards and Sanctions System

Another important component of a performance management system, reward/sanction systems, also has its complexities. The least complicated strategy is to offer praise for successful compliance through certificates or an honor roll. A more energizing strategy is to provide additional funding, accompanied by more flexibility in the use of funds. A monetary reward is more consistent with private sector systems.

Inadequate performers, Barnow suggests, could lose the privilege of operating a program, or the federal funds could be reduced. Or program administrators could be required to accept remedial technical assistance, as in JTPA. Tying the level of rewards to the level at which standards are exceeded is an option already mandated in some federal legislation. However, funding rewards and penalties may actually be counterproductive, Barnow says, if more funding leads to new responsibilities or declining funding denies services to a burgeoning client population. The Achilles heel here is that a lack of consideration of the characteristics of participants may encourage program administrators to "cream" for those most likely to succeed in the labor market.

Performance Standards and Measuring Economic Efficiency

According to the author, judging a program's "return on investment" is a key objective at all levels of government. In discussing ways to address economic efficiency in performance management systems, Barnow focuses on two issues: *reductions in transfer payments* and *substitution effects*. Cost/benefit analyses have tended to treat a particular loss to clients as a particular gain to taxpayers — that is, reduced welfare transfers equal reduced taxes for others. This tradeoff may sound simplistic but it is implicit in most E&T legislation. The substitution problem is more difficult to deal with. Barnow says "if the gains in earnings accruing to participants are at the expense of other workers, then not all the *private* gains are *social* gains."

Barnow says that giving substitution effects due consideration involves addressing two types of equity issues:

1. *The value placed on successful outcomes for particular subgroups of clients.* Earnings gains realized by certain kinds of participants may be viewed as more valuable from a societal perspective than the same gains experienced by other clients.
2. *The value placed on a broad vs. a more narrow service delivery response.* Programs serving a large number of eligible people but with limited services may be considered more valuable than programs serving a smaller number but with a more intensive mix and sequence of services.

These issues complicate the development of performance standards, since they involve policy decisions laced with value judgments. Nevertheless, Barnow recommends that such issues be studied in developing performance management systems.

The JTPA Performance Standards System

The author sorts out the advantages and disadvantages of an established performance management system that has been fine-tuned over the 1990s — the system for JTPA. This system has been successful, Barnow thinks, in terms of its practicality, the level of acceptance by state and local stakeholders, and the richness of its database. The best empirical evidence to date suggests, however, that JTPA performance standards have led to efforts to enroll those clients defined as easiest to place in jobs.

However, he also points to an evaluation of JTPA by SRI in 1988, sponsored by the *National Commission for Employment Policy*, which indicated that although the performance management system created some incentives for creaming, JTPA service delivery areas (SDAs) which gave priority to goals other than achieving high scores on performance standards were able to resist biasing the program enrollment process. The most prominent of these other objectives was the desire to serve certain types of clients, and to respond to the needs and interests of employers. Barnow believes that creaming is decreasing with the increased use of *state adjustment models* for developing standards, and with recent changes in both performance measures and adjustment models, and the dropping of cost standards.

But clearly there are questions remaining. Barnow sees several worth policy attention:

- Whether the JTPA performance standards system promotes the maximization of earnings and employment gains and reductions in welfare transfers.
- Whether it achieves the goal of holding SDAs harmless for serving individuals with different characteristics.
- Whether it should lead to indifference on the part of SDAs regarding the kinds of people served.

Several sources of bias remain in the JTPA performance standards adjustment models, Barnow says: 1) bias introduced by grouping data; 2) bias due to an incomplete set of explanatory variables, and 3) bias as a result of the focus on participants rather than on the eligible population. Some states have addressed equity issues by adding standards for the participation of particular groups, others for outcomes for such groups. But Barnow reminds us that each new variable added to the models requires additional data collection, and as models become more complex they become more difficult to use. Consideration should be given, he says, to 1) approaches that take into account important participant characteristics not included in the models, and to 2) avoiding basing reward/sanction systems solely on regression equations.

Performance Standards Systems in Other Programs

The JTPA system for Title II is clearly the most highly developed. Title III uses only one standard, *entered employment rate,* and an *optional wage standard.* Title IV programs also have performance standards systems, as well as the Employment Service and the Food Stamp E&T Program. The JOB Corps includes standards for the performance of private sector center operators, with sanctions involving the loss of a franchise. Standards are being developed for the JOBS program as well. However, JOBS differs from JTPA in being a state rather than a local program, and in being jointly funded by federal and state governments, which affects the development of its performance management system.

JOBS administrators have been concerned that standards may lead to *creaming,* and that the gross outcomes on which the standards rely are not highly correlated with net program impacts. But Barnow proposes that these concerns may be more reflective of a different service system philosophy than realistic anxiety about the influence of performance standards.

Barnow recommends that more data be collected on participants and their outcomes, that a rewards/sanction system be developed only gradually, and that administrators at the federal level resist basing performance standards on state-specific programs — he suggests that they wait for the results of a *national* evaluation before setting standards.

Conclusions in Barnow's Analysis

At the end of his chapter there is an admonition to readers that none of the existing performance management systems are perfect, or even ideal. But there is also optimism. The author is convinced we can develop reasonable systems that are useful. The basic question he poses is whether the risks of providing inappropriate incentives due to imperfect models "outweigh the benefits of providing program direction and accountability." Performance management systems offer our best chance, he believes, for dealing with conflicting program objectives, and for countering the tendency of bureaucracies to act in a manner inconsistent with the achievement of economic efficiency.

System Performance

The trend in the mid-1990s is moving inevitably in the direction of developing performance measures and standards for comprehensive workforce preparation systems at the state and local level. Can we apply Barnow's issues, cautions and recommendations to these *systems?* Undoubtedly. The performance management concept Barnow defines fits the accountability needs of systems as well as programs. In this concept, performance measures and standards are to be based on goals, objectives and a set of outcomes consistent with those goals. This is true for programs, true for systems of programs.

Most of the kinds of performance measures Barnow identifies as part of program-specific performance management systems are equally suited to system analysis. The exception is that since there is no "comparison group" for systems, net impact evaluations are not appropriate. However, cross-state comparisons may be possible, and net impact studies of consolidated programs within the system may be useful. Longitudinal surveys that gather process and gross outcome information can also contribute to a knowledge of the system's overall economic efficiency and effectiveness.

Barnow's exploration of issues involved in developing performance standards, and his recommendation to collect an adequate database prior to such development, are important insights for the new coordinated workforce development systems. Although the author's chapter does not address the role of evaluation research, per se, we turn our attention to that subject in the next article.

Performance Management Systems: Evaluation Principles and Standards

Analyses of performance management concepts and systems have frequently failed to address the role of *evaluation research* within these systems. Sometimes evaluation is treated as an independent add-on oversight function, rather than an ongoing integral element of performance management. Yet the professional stature and perceived utility of applied social research in producing valid information for "managing performance" in social programs has grown enormously over the past three decades. With the advent of larger-scale workforce development systems, the failure to define a viable role for evaluation research within performance management systems is an enigma of sorts, and represents a missed opportunity.

This missing linkage is perhaps due most to the perception that evaluations are one-time, more expensive *snapshots* of programs, and take a longer time than other strategies to yield useful results. There is even the view that the results of the more competent evaluations are so well-qualified that they lose their utility.

This perception ignores the role of *process studies* that look at ongoing program implementation processes, and longitudinal surveys which track clients, services and results over time. They ignore the simple institution of formal feedback expectations and mechanisms within evaluation research contracts, which ensure that evaluation findings are immediately absorbed into policy and planning decisionmaking. They also ignore the basic need in all programs for genuinely *accurate* information, as opposed to information generated from more subjective sources. In this respect, qualfications to evaluation research findings are required if what is learned about programs is to have any ring of validity about it.

Evaluation Research Goals, Principles and Standards

One perspective on the role of evaluation research is reflected in a 1994 publication by Sage, *The Program Evaluation Standards* by James R. Sanders. Sanders is the chair of the American Evaluation Association's Joint Committee for Educational Evaluation. Although the book focuses substantively on the education field, it is offered as a much more general contribution to the understanding of evaluation research, and is meant to apply equally well to social policies and programs in other areas, such as employment and training.

The effort to develop principles and standards guiding evaluation research practice goes back to the early 1970s when twelve national professional associations began to explore evaluation issues. These associations discovered, not to their total surprise, that there were serious, fundamental differences in their viewpoints. The Committee was formed to resolve such differences, which resulted in *Standards for Evaluations of Educational Programs, Projects and Materials,* published by McGraw-Hill in 1981. Through a progressive series of meetings and the solicitation of ideas from a large number of experts, the Committee later reviewed and updated the 1981 effort, and reached a consensus on evaluation research principles and standards as of the 1990s, which are contained in the Sanders book.

The intent of this standards-setting process was to establish a professional guide for evaluation practice that would also educate evaluation customers and the public about the role of evaluation research. The 1994 standards represent the official position of the American Evaluation Association (AEA).

But the Joint Committee is keen to remind readers and users that standard-setting is an ongoing process. Research practice and the professional knowledge base are constantly undergoing change, and such changes must be continually reviewed and revised within an evolutionary process. The Committee also recognizes that the general principles and standards of any era must remain sensitive to the substantive fields in which they are being applied. And finally, the Committee sees evaluation standards as *guides,* not as binding rules.

The Evaluator's Major Tasks

The Committee believes that application of the standards must be judged in the context of key tasks evaluators perform:

- Deciding whether to evaluate.
- Defining the evaluation problem.
- Designing the evaluation.
- Collecting information.
- Analyzing information.
- Reporting the evaluation.
- Budgeting the evaluation.
- Contracting for the evaluation.
- Managing the evaluation.
- Staffing the evaluation.
- Developing evaluation policies.

The applicability and/or importance of a given standard, given these tasks, is considered to vary with the nature of a given evaluation.

Evaluation Principles

There are a number of ways to look at principles and standards. A 1992 report from the American Evaluation Association's *Task Force on Guiding Principles for Evaluators* gives us one viewpoint. The goals for evaluation that underly these principles are: 1) the improvement of "products, personnel, programs, organizations, governments, consumers, and the public"; 2) more informed decisionmaking and more enlightened change efforts; 3) the actual generation of change; 4) the empowerment of stakeholders through engaging and investing them in the evaluation process; and 5) the incorporation of new insights from research into public policy development, planning and oversight.

The overriding purpose of evaluation is "to provide the best possible information bearing on the value of whatever is being evaluated." This is in the context of Sanders' definition of evaluation as "the systematic investigation of the worth or merit of a program." Figure 1 provides an overview of the Task Force's *principles.* Figure 2 is an overview of the 1994 *principles and standards* which are given more substance in Sander's book.

Implications of the AEA's Principles and Standards

Setting thresholds regarding the background and behavior of evaluators is much like setting performance standards for programs. It clarifies roles and responsibilities. However, no incentive/sanction system accompanies the former, except the ability of customers to deny contracts to evaluators they do not feel fit the standards. This requires customers to be much better informed about the meaning and value of evaluation research than they are currently. These principles and standards should assist customers in significant ways to be more sophisticated in developing RFPs for research, and for making sound selections among available researchers for periodic process, outcome and net impact studies and for ongoing evaluation activities such as longitudinal surveys.

The principles and standards also provide insights about the basis for *quality assurance* and *continuous program improvement.* As important goals of performance management systems, quality assurance and continous program improvement must necessarily depend on the nature of the information about programs, and their environments, that is generated from a range of sources — involving qualitative and quantitative information, objective and subjective data — through ongoing or periodic data collection and analysis. The development of performance standards is highly dependent on the quality of this information. The AEA evaluation standards can, in that sense, make a significant contribution.

Figure 1 ■ Guiding Principles

Systematic Inquiry	**Evaluators are expected to conduct systematic, data-based inquiries about whatever is being evaluated:** ■ Should adhere to the highest scientific standards so as to increase information accuracy and credibility. ■ Should communicate their approaches and methods accurately and honestly, and in sufficient detail to allow others to understand, interpret and critique their work. ■ Should clarify the values, assumptions, theories, methods, results and analyses that significantly affect the interpretation of evaluation findings.
Competence	**Evaluators are expected to assure stakeholders of competent performance:** ■ Should possess the education, abilities, skills and experience appropriate to the evaluation tasks to be performed. ■ Should practice within the limits of their professional training and competence. ■ Should decline to conduct evaluations that fall substantially outside those limits. ■ Should continually seek to maintain and improve their competencies.
Integrity and Honesty	**Evaluators are expected to ensure the honesty and integrity of the entire evaluation process:** ■ Should negotiate honestly with clients and stakeholders concerning the costs, tasks, methodological limitations, scope of results and use of data resulting from an evaluation. ■ Should seek to determine their own, their clients' and stakeholders' interests concerning the conduct and outcomes of an evaluation. ■ Should disclose any roles or relationships they have concerning whatever is being evaluated that might pose a significant conflict of interest with their role as evaluator. ■ Should not misrepresent procedures, data or findings. ■ Should determine that if certain activities seem likely to produce misleading evaluative information or conclusions, these concerns are communicated to the customer.
Respect for People	**Evaluators are expected to respect the security, dignity and self-worth of the respondents, program participants, clients and other stakeholders with whom they interact:** ■ Should abide by current professional ethics and standards regarding risks, harms, and burdens that might be engendered in those participating in the evaluation regarding informed consent and informing participants about the scope and limits of confidentiality. ■ Should conduct evaluations and communicate their results in a way that respects stakeholders' dignity and self- respect. ■ Should attempt to foster the social equity of the evaluation, so that those who give to the evaluation can receive some benefits in return. ■ Should identify and respect differences among participants, such as in their culture, religion, gender, disability, age, sexual orientation and ethnicity, and to be sensitive to the potential implications of these differences when planning, conducting, analyzing and reporting on evaluations.
Responsibilities Re: the General Public	**Evaluators are expected to articulate and take into account the diversity of interests and values that may be related to the general and public welfare:** ■ Should consider including in the planning and reporting of evaluations the perspectives and interests of the full range of stakeholders. ■ Should consider not only the immediate operations and outcomes of the program being evaluated but also the broad assumptions, implications and side-effects of that program. ■ Should allow all relevant stakeholders to have access to evaluative information, and actively disseminate it to them, tailoring this information to the interests of different stakeholders. ■ Should maintain a balance between client needs and other needs. ■ Should protect the public interest and public good.

Figure 2 ▪ Evaluation Principles and Standards

Utility	**Evaluations should serve the information needs of intended users and stakeholders.** ▪ The users and stakeholders, i.e., those involved in and/or affected by evaluation activities, should be identified and their needs determined. ▪ Evaluators should be credible — that is, they should be both trustworthy and competent to perform evaluations, and so perceived by users and stakeholders. ▪ The information collected and analyzed should address key questions about organizations and/or programs of interest and concern to users and stakeholders. ▪ The perspectives, processes and rationales underlying the interpretation of evaluation findings should be made explicit, so that the basis for judgment is clear. ▪ Evaluation reports should clearly describe the program being evaluated: its context, its purposes, its methodology, and the findings of the evaluation. ▪ Significant *interim* findings and evaluation reports should be disseminated to users and stakeholders to encourage timely use of emerging information. ▪ Evaluations should be planned, conducted and reported in ways that promote follow-up by users and stakeholders.
Feasibility	**Evaluations should be realistic, prudent, diplomatic and frugal.** ▪ Evaluation processes should be practical, to reduce disruption of the programs being evaluated. ▪ Evaluations should be planned and conducted with respect for the positions of various interest groups, to obtain their cooperation, and to reduce potential misapplication of evaluation findings. ▪ Evaluations should be efficient, and produce information of sufficient value and use that the resources expended on the research can be justified.
Propriety	**Evaluations should be conducted legally and ethically, considering the welfare of those involved in the evaluations and affected by the results.** ▪ Evaluations should be designed to assist organizations and programs to address and effectively serve the needs of all the participants expected to benefit from organizational activities and the receipt of program services. ▪ What is to be accomplished, by whom, and when should be agreed to *in writing* by the parties involved in an evaluation, to commit them to the conditions of the agreement or to a formal renegotiation of the agreement if that becomes important. ▪ Evaluations should be designed and conducted with a respect for the rights and welfare of the subjects of research activities, and the need to protect these values. ▪ Evaluations should recognize and record fully and fairly the strengths and weaknesses of the program being evaluated, so that problem areas can be addressed and strengths built upon. ▪ The formal parties involved in evaluations should make certain that the set of research findings and limitations to the findings are available to those affected by the evaluation, and to any others with expressed legal rights to this information.
Accuracy	**Evaluations should reveal and convey accurate (unbiased) information about the key features of the organizations or programs being evaluated.** ▪ The organization or program being evaluated should be described clearly and precisely. ▪ The setting and environment of the program should be examined in sufficient detail to identify those factors most likely to affect the organization or program. ▪ The adequacy of the sources of information used in an evaluation should be determined. ▪ Data collection methods should be selected and applied such that *reliable and valid* information is the basis for interpretations of the findings. ▪ The *research design* (experimental or nonexperimental) including *methodological* decisions (about measurement, sampling methods, and quantitative and qualitative data collection and analysis methods) that guide evaluations should be appropriate to the *research questions* selected for study. ▪ The evaluation *process* should be monitored and assessed throughout the evaluation. ▪ The conclusions flowing from an evaluation should be made explicit and should be justified; and evaluation reports should honestly reflect the results of the evaluation and any qualifications to its findings. ▪ The strengths and weaknesses of the evaluation design, methodology, and research process should be assessed at the completion of a study.

Editor's Note

For useful references on evaluation research, please see:

Alin, M. et al. *Using Evaluation: Does Evaluation Make a Difference?* Newbury Park, CA: Sage Publications, 1979.

Cook, T. and C. Reichardt (eds.) *Qualitative and Quantitative Methods in Evaluation Research.* Newbury Park, CA: Sage Publications, 1979.

Herman, J. *Program Evaluation Kit.* Nine volumes on different aspects of evaluation research. Thousand Oaks, CA: Sage Publications, 1987.

Levin, H. *Cost-Effectiveness: A Primer.* Thousand Oaks, CA: Sage Publications, 1983.

Mohr, L. *Impact Analysis for Program Evaluation.* Thousand Oaks, CA: Sage Publications, 1992.

Patton, M. *Qualitative Evaluation and Research Methods.* Newbury Park, CA: Sage Publications, 1990.

_____ *Utilization-Focused Evaluation.* Beverly Hills, CA: Sage Publications, 1986.

Rossi, P. and H. Freeman. *Evaluation: A Systematic Approach.* Thousand Oaks, CA: Sage Publications, 1991.

Shadish, W. et al. *Foundations of Program Evaluation: Theories of Practice.* Newbury Park, CA: Sage Publications, 1991.

Strauss, A. *Qualitative Analysis for Social Scientists.* New York, NY: Cambridge University Press, 1987.

Stufflebeam, D. *Metaevaluation.* Kalamazoo, MI: The Evaluation Center, Western Michigan University, 1988.

Worthen, B. and K. White. *Evaluating Educational and Social Programs: Guidelines for Proposal Review, On-Site Evaluation, Evaluation Contracts, and Technical Assistance.* Boston, MA: Kluwer Academic Publishers, 1987.

Three useful journals are *Evaluation and Program Planning, New Directions for Program Evaluation,* and *Evaluation Practice.*

Editorial Commentary

This series of articles yields common elements of performance management systems for judging programs, and groups of related programs in workforce development systems. Quality assurance, continuous program improvement, performance measures and standards, and evaluation research are key concepts.

Contrary to some of the distinctions made by the authors represented in this section, it would seem logical to view performance management (or accountability) systems as the holistic concept , and attribute to these systems a number of goals:

- To assure *high quality* throughout the various aspects of individual programs and systems of programs.
- To make assessments of systems and programs *using performance measures and standards.*
- To *evaluate* systems and programs regarding dimensions of their operation, the characteristics of their client groups, the nature of their services and service delivery systems, their outcomes for participants and others expected to benefit from them, and their net impacts.
- To continuously improve systems and programs through the timely use of objective evaluative information from various sources.

The inclusion of quality assurance, continual program improvement, performance standards and evaluation research *within* the concept of *performance management* recognizes that a range of strategies for judging systems and programs are, and must be, encompassed in the effective management of programs — if indeed the purpose of accountability systems and the goals of management are to maintain a satisfactory level of performance or enhance it. None of these strategies should be cordoned off in a territory of its own.

At the State and Local Level

Editorial Introduction

The interest in *program coordination* and *service system integration* is not new. It even appears to be politically cyclical. In the 1950s many communities created local social service councils which brought program organizations together around common community goals. The missing link was a commitment to strategic planning in the formal sense, and to oversight activities such as monitoring compliance with formal plans and judging overall performance.

In the 1970s there was another wave of coordination efforts, under the title "human services integration." This was the era of the federal Joint Funding Simplification Act, which offered a strategy for packaging federal funds for better coordinated, even though not yet integrated, human service activities. Most of the 1970 concepts remained policy goals that were only sparsely tested and implemented, and continuing interest group pressures yielded an increasingly fragmented social service and workforce preparation system.

The Reagan Administration advocated what appeared to be a new version of coordination through *block grants* to states. The consolidation of funding streams was viewed by some experts as the only way to achieve true integration of existing program territories. But the goal at this time was only secondarily to pull social programs together more effectively. It was mainly a way to satisfy political commitments to states' rights and to cut the federal budget, since the down side of these block grants was increased state responsibility coupled with reduced funding.

The Clinton Administration acknowledged that multiple program organizations had now developed a natural resistance to integration. Separate funding streams for programs and projects understandably reinforced the bureaucratization of these organizational empires. Concern about the impact of this development on costs, and on the results of service efforts on customers, led to another coordination movement in the 1990s.

The reforms characteristic of the present movement have continued to preclude the *comingling* of program funds and the actual *consolidation* of programs. But the changes recommended go significantly further than earlier concepts in knitting diverse educational, training and employment efforts into a single "system," particularly at the state level — with strong mandates regarding short and longer-term strategic planning and the use of a common set of measures for monitoring and evaluating the progress of the system in meeting planning expectations. Secretary Reich's Reemployment Act of 1994 was an important expression of the new philosophy.

Therefore, as a prelude to this series of articles on earlier and contemporary coordination efforts, we summarize the major features of the Act in the list below.

- The establishment of *state human resource investment councils* or their equivalent. These councils are to be responsible for developing a comprehensive state-wide workforce development plan and system, and for overseeing the implementation of this plan and the system's performance.
- The identification of substate *one-stop service areas.*
- The development of a *common operational agreement* among all the parties involved in the one-stop centers.
- The creation of local *workforce investment boards* within the one-stop center areas.

  Composition:
  - Representatives of private sector employers. *Private sector employers are to be a majority on these boards.*
  - Representatives of organized labor and community-based organizations.
  - Representatives of educational institutions.
  - Community leaders.

  Functions:
  - Provision of policy guidance.
  - Development of a strategic plan for workforce development programs consistent with the state plan.
  - Identification of measurable objectives for improving the quality and effectiveness of workforce development.
  - Utilization of labor market and related information to identify available jobs and occupations in demand, and the educational and training services available to develop skills.
  - Development of methods for coordinating programs so that they provide maximum coverage of the workforce, ensure equitable access to all population subgroups, and enhance the delivery of services.
  - Review and approval of budgets for federal programs, and the development of recommendations regarding the budgets of other programs operating within the one-stop service areas.
  - Monitoring of the implementation of the strategic plan and the judgment of the overall performance of the local workforce preparation system.
- The establishment of one-stop career centers.
- The provision of a menu of common services through the centers.
- The participation of federal employment and training programs in the centers.
- The development of a quality assurance and performance management system.

The following series of articles is intended to shed some light on the history of coordination, and on current efforts to pull an unwieldy cluster of conscientiously-designed educational, training and employment efforts together into a more comprehensive, coherent, market-driven, user-oriented system.

The first article looks at some of the history of coordination. The second focuses on the efforts of some states to coordinate their employment and training programs within state-wide systems. The third and fourth review important conceptual and pragmatic reports supporting state coordination efforts. The last explores NGA's project to enhance accountability in new state workforce development systems.

A Brief, Selected History of Coordination Efforts

Tied as we tend to be to our own era in employment and training, we often assume that the initiatives, or "reforms," indigenous to the life or our own careers must be new and different. Within this perspective these reforms hold our attention and energize us to experiment with and adapt useful ideas to the needs of our time. But it is also important for us to understand and learn from the history that precedes "our time."

A report yet in draft form at the time this article was written is a unique resource in this respect. It is the National Commission for Employment Policy's monograph tentatively titled "Historical Efforts to Improve Coordination in Employment and Training Programs" and is authored by the Commission's acting director, Janet Johnston. This excellent in-progress report tells us much we need to know.

What Is The Problem?

The report raises the issue of the U.S. General Accounting Office's series of 1994 reports on problems associated with the proliferation of employment and training programs, titled *Multiple Employment Programs*. This series clarifies that there are now over 150 programs devoted to workforce preparation, administered by 15 agencies, and funded at approximately 25 billion dollars. The Commission itself completed a comprehensive inventory in 1994 of 55 federally-funded employment and training programs administered by 7 agencies, *Understanding Federal Training and Employment Programs*, which includes information on who sponsors and funds them, whom they serve, how many are served, their funding levels, and information from research on their efficiency and effectiveness. The array is mind-boggling.

What Is The Recent Response?

In response to earlier concerns about program and service coordination, the Clinton Administration recommended a consolidation of six programs for dislocated workers under a new governance arrangement, with coordinated services delivered through one-stop multi-service centers at the local level. Oversight would be the responsibility of local workforce boards under the guidance of state Human Resource Investment Councils or their look-alikes. In the winter of 1994/1995, the new Congressional leadership suggested other alternatives, including a 1990s' consideration of the block grant concept which surfaced earlier in the Nixon and Reagan years.

The Commission's Perspective on the History of Coordination

Johnston sees the evolution of national employment and training initiatives between the Great Depression and the 1990s as federal experiments that "evolved from a collage of individual contracts and grants administered by a number of federal agencies to broaden programs aimed at specific target groups." The major question this evolution raises for the author is *what the role of the federal government should be vis-a-vis state and local government bodies.*

This question leads Johnston to analyze the history of coordination within four issue areas: comprehensive planning, coordinated service delivery, administration and fund consolidation.

Comprehensive Planning

The 1967 *Cooperative Area Manpower Planning System* was the product of four federal agencies working together on what Johnston views as a *grass roots-upward* coordinated planning concept. This system was a way to enclose coordinated planning and resource allocation within an integrated intergovernmental system linking local communities with different levels of government. But the system was voluntary, the different governmental levels disagreed over control issues, policies were not sufficiently supported by more specific objectives and implementation strategies, and the results were not carefully evaluated. Consequently the system did not live up to expectations, Johnston concludes.

Coordinated Delivery Systems

A number of strategies in the 1960s held promise for integrating services. However, planning inflexibilities and unrealistic goals reduced their effectiveness, according to Johnston. In 1972, the *Comprehensive Manpower Program* was introduced. It consisted of a series of demonstration projects testing the coordination of services across political jurisdictions and was constructed on earlier coordination efforts. But service contracting remained fragmented, and establishing linkages among existing programs proved to be difficult. However, a revision of the program appeared to be superior to previous attempts in terms of the decentralization and decategorization desired, short of new comprehensive employment and training legislation.

Administrative Solutions

Although administrative reforms were less attractive and dramatic to planners than comprehensive planning and service delivery coordination, Nixon's A-95 process was expected to decentralize programs, simplify federal grant processes, standardize administrative rules, and integrate the administration of grants to state and local governments — thereby providing a new environment for coordination. This change did streamline grantmaking and monitoring systems, and promoted comprehensive program management.

Fund Consolidation

In 1971, the federal government introduced *Planned Variations*, an experiment to give mayors more discretion in spending federal grants. The test yielded mixed results in terms of the power, sophistication and effectiveness of mayors in utilizing this flexibility. Meanwhile, Nixon's *revenue sharing* was to replace categorical programs in several broad issue areas — education and employment/training being two of these — and gave grant recipients even greater discretion in spending funds. In the process, it was to allow for a consolidation of programs at the subnational level, consistent with the priorities of state and local governments. But the Congress became concerned about the lack of monitoring and evaluation of the efforts made, and the idea of revenue sharing faded away like an old soldier.

Another Perspective on Coordination

The Commission draft report chronicles the important, if imperfect, coordination efforts through the 1990s. But before venturing past the 1970s, we should reminisce a moment about the larger *human services integration movement* of the late 1970s. We can catch a glimpse of this movement quite well in a large green tome used extensively in social welfare courses in that era, titled *Managing Human Services.* It was published in 1977 by the Institute for Training in Municipal Administration and the International City Managers Association. Its editors were an eclectic group: Wayne Anderson from the U.S. Advisory Commision on Intergovernmental Relations, Bernard Frieden of MIT, and Michael Murphy of the Management Association.

The book summarized, analyzed and commented upon a considerable body of managerial knowledge and experience regarding human service policy development, delivery and evaluation. The content was focused on the changing roles of different levels of government in assessing a range of human service needs, developing human service policies and the delivery of such services, evaluating their results, and using this information to improve policies and their implementation. Sound familiar?

The last chapter of the book honed in on *service integration.* Authored by Robert Agranoff, a political science professor, director of the Center for Governmental Studies at Northern Illinois University, and chair of the American Society for Public Administration's section on Human Resources Administration, the chapter gives us an impressive overview and commentary about the thinking of that era regarding *coordination.* Agranoff defined service integration as a veritable *movement.* The belief expressed in that movement was that the most useful way to address people's needs was an holistic one — that is, services should be based on the needs of entire government systems, and the entire set of a client's needs, rather than on a single problem, on pressures from a single advocacy group, or on a single categorical agency.

The author suggested that human services integration be defined in terms of:

- A comprehensive policy that cuts across independent programs and classes of services.
- A service delivery system designed to meet the needs of clients whose problems go beyond a single problem, program or agency.
- A consolidated organizational structure that supports the above concepts.

The problem stimulating serious thinking about integration, Agranoff said, was 1) the expansion of categorical human service programs; 2) the multi-faceted role of government (performing funding, regulation, purchase of services, and other functions in addition to service delivery); 3) generic problems in service delivery (fragmentation, discontinuity, inaccessability and unaccountability); 4) whether service strategies are meeting their goals; and 5) the lack of policies seeking to resolve these problems.

The author proceeded to provide an overview of federal human service integration initiatives such as the *Community Action Agencies, Model Cities,* federal research and demonstration projects such as the *Services Integration Targets for Opportunity* program, the U.S. Department of Health, Education and Welfare's *Partnership Grants* program, and state and county efforts initiated with or without federal assistance such as the *Flexible Intergovernmental Grant* project in the northwest. These efforts were more extensive than we might have imagined.

The concept of a service delivery model serving the *whole* individual with *multiple* needs actually surpasses current integration initiatives. It was not tied to categories of need, such as to education, training and employment, but broadened to include diverse services, income assistance, and personal counseling. Agranoff called this a "bottoms-up planning approach." Rather than relying on the functions of agencies in bringing things together, the planner organizes a service system around *sets of client needs.* Although the imperative for coordination at the federal, state and county levels was addressed, the emphasis was on a local-level "human services subsystem", which was to operate much like a community development or land use subsystem. Within this perspective, natural linkages were seen to exist between the subsystem and a myriad of resources within the entire community.

But Agranoff was not naive about the ability of governments and communities to implement this concept. He acknowledged the weak supports for moving in this direction. Yet this movement was receiving momentum from important people. Frank Carlucci, a former Undersecretary of Health and Human Services, testified before the Congress in support of this holistic approach. Social welfare experts such as Alfred Kahn of Columbia University suggested a very simple service network: "an access system, or numerous neighborhood information centers charged with giving people information and options, and allowing for selection and monitoring; generalist social service offices that would offer general counseling and manage the case if specialized services are needed; and specialized programs."

This human services integration movement clearly has much to offer in the current debate over how to coordinate policy, planning, service delivery and oversight in large areas of human services.

More Recent History

For obvious contemporary cultural reasons, "manpower planning" became *employment and training* or *workforce system* planning in the 1980s and 1990s. Such planning had benefited from the lessons learned in previous attempts to cooperate, collaborate, coordinate, integrate and consolidate. But territoriality continued to pose challenges. We return to Janet Johnston's insightful analysis.

The State Job Training Coordinating Councils and more localized Private Industry Councils in JTPA revised the notion of decentralized comprehensive planning in the direction of privatization. Based on a Commission study of the PICs, Johnston suggests that their main weakness has been a lack of training in planning and oversight for chairs, boards and council staff.

Secretary Reich's Reemployment Act took the council idea a step further in recommending the formation not only of statewide and regional councils but also local boards that could oversee one-stop multi-service centers. Strategic planning, budgeting and oversight were to be the cornerstone functions of these new mechanisms for coordination. Again, experimentation with these innovations have encountered substantial territoriality.

Johnston points out that the JTPA amendments gave governors the option of developing Human Resource Investment Councils as a way to expand the stakeholder group and service coverage. The Reemployment Act requires this. Currently there are variations on the theme. Eighteen states have formed councils of the kind recommended in the act. Some have established even broader-based bodies. But other state councils have involved fewer constituencies than mandated in the act. Many are moving in this direction but have not yet arrived.

Since there are no sanctions currently for failing to create comprehensive state and local workforce system boards or councils, and limited rewards for doing so, states have made uneven efforts, their coordinating bodies differing regarding leadership, composition, priorities, policies and implementation strategies. Bringing previously-sovereign organizational entities together around common goals, linking these entities with employers and unions and related stakeholders, has not been easy. The mixed results of efforts to coordinate JTPA and JOBS, whose client populations overlap, is an example of the difficulties.

Another illustration is pinned down in the results of a Commission-funded survey conducted by the National Alliance of Business in 1985, which indicated that close to 30% of all Private Industry Councils felt state councils had no impact on their activities or had actually created problems for them. Yet states have been innovative in the way they have established councils in terms of their sensitivity to existing organizational arrangements across workforce programs and institutions. Some have incorporated the state job training council, as in Oregon. Some have folded in the State Council on Vocational Education, as in New Jersey. Some have "umbrella councils" whose functions are limited to high-level policy development, long-term planning and oversight, as in New York. Meanwhile, Indiana exemplifies the kind of council recommended by the Reemployment Act.

And there are instances of states braving the waters relatively alone. Johnston reports that the MASSJobs Council has developed strong regional employment and training boards by providing genuine financial incentives for their functioning as regional planning bodies, for their devising methods for measuring the board's effectiveness, for their developing an expanded labor market and service information system, and for their having linked the boards with economic development efforts.

Information System Technology

In this age of information systems, we reluctantly recognize that management information systems often drive service integration, or at least support its development. There is increased interest in automating information for customer use in one-stop centers — both information about the labor market and information about service options, *across* organizations. And there is a fluorescence of interest in computerizing more sophisticated and useful monitoring and evaluation information across these territories — high-tech information systems now considered a key element in coordination efforts. Few states have such systems in place, but many are moving in this direction despite difficulties in developing common operational definitions and measures for key variables across programs. States such as New York and Wisconsin have gone far to pull information networks together, and a number of other states have developed a core set of measures common to all programs within state workforce development systems.

Consolidation at the National Level

It is interesting that despite the major efforts being made at the state level to carry out ever-stronger decentralization and privatization mandates regarding coordination, there is also a bubbling-up of support for a *national workforce development council or board.* The State Job Training Coordinating Council Chairs' Association, in their monograph *Bringing Down the Barriers,* has recommended the establishment of a *Federal Human Resources Investment Board* by Presidential executive order. This mirrors the role of the National Commission, raising the possibility of expanding the Commission's composition and responsibilities, as a more inclusive vehicle for national-level policy development, comprehensive planning and oversight.

Adding ideas to the hopper is the prestigious National Research Council, through its Committee on Postsecondary Education and Training for the Workplace. The Committee's recent two-year study of workforce system innovations, funded by the U.S. Department of Education, concluded that a new independent *Office of Workforce Development* be created, much like the National Science Foundation. This office would apparently absorb some of the functions now performed by other federal agencies. Given the current trend toward reduced federal government, this careful study was quite important in confirming the continuing need for strategic planning and oversight at the federal level. If we believe that cooperation and coordination among diverse parties is an essential characteristic of American social democracy, there is hope. However, given Congressional leadership sentiments, a coherent national workforce development effort may or may not be viewed as an essential part of unrelenting efforts over time to bring greater integration and rationality to workforce preparation.

Establishing Comprehensive Workforce Development Systems: State-Level Efforts in the 1990s

There has been a gradual recognition over time that what the federal government and state governments across the country *wished* could be described as a nicely integrated set of educational, training and employment services for American workers was, in fact, a patchwork of separate service programs, however well-conceived and designed as separate initiatives. The developmental history of each major national program, and a myriad of smaller state efforts, had resulted naturally in diverse policies and planning priorities, organizational structures, service delivery procedures and practices, ways to monitor what was happening within the program and its results, and methods for assessing the effect of influences imbedded in program environments. So concern about and enthusiam for finding solutions to the lack of coordinaton has been building.

The President, the Congress and the federal agencies began to take the coordination problem more seriously beginning in the late 1980s, with JTPA, JOBS and vocational education. A number of studies of coordination were conducted to determine *"best coordination practices."* At the same time, there was an increased interest in social program *accountability*. There were many reasons for this, among them public anxiety about the economy, government deficits, and the proliferation of programs ahead of their evaluation.

This "accountability movement" was occurring at all levels of government, as well as in the private sector. Evaluation researchers were brought into this debate and the search for solutions because of the growing prestige of applied research and the perception that utilizing social science principles and methods could guide the production of objective information for policy and planning most effectively.

States benefited from federal coordination efforts. Closer to the pressures for change, however, they were developing their own strategies. Having already taken the initiative, many states were further energized by the Clinton Administration's coordination priorities and legislative proposals in support of workforce development systems. These priorities placed emphasis on emerging state-level efforts to develop comprehensive state-wide workforce preparation systems that were bringing together individual programs and services under one policy and planning roof, and making the system's services accessible through coordinated multi-service centers. Paralleling this boost to coordination were efforts to address accountability issues in judging the performance of these new entities. Now the focus was on the outcomes and impacts of *systems of programs*.

This article provides a selective overview of state efforts in 1994 to address accountability issues in new state-wide workforce preparation systems. It is skewed toward states' beginning conceptual efforts, which have likely undergone considerable revision since originally conceived.

Characteristics of Selected State Workforce Systems

Based on materials provided by approximately nine states concerning their state-wide workforce system's missions and goals, the following attributes were identified:

- Most of the states were integrating education, job training, employment, income support, related supportive services, and economic development efforts.
- Most were assigning planning, coordination and oversight responsibilities for the entire workforce system to a single central body — a state-wide council or board.
- About half of the states were involving business and labor to a high degree in system planning and oversight.
- Nearly all were placing heavy stress on strategic planning and a review of results against plans, across the entire workforce development system.
- Most were developing linkages across programs through local workforce boards, local planning, and one-stop centers for integrated service delivery.
- The majority were working toward a common core set of data elements and definitions, and a uniform set of performance measures and standards that were to apply to all workforce development programs.
- Most had not chosen to develop incentive/sanction systems related to performance.
- About half were giving serious consideration to achieving consistency between system goals, skills standards, certification systems and accountability methods.
- A slight majority was committed to integrating data systems across the workforce system, with the others moving toward coordinated or linked data systems.
- The vast majority were requiring that the system's programs be made accountable through multiple strategies, including evaluation research. There was substantial interest in both process and outcome evaluation, and net impact studies — i.e., a formal evaluation system.
- Few states had developed strategies for disseminating and utilizing evaluative information for continually improving the system.

Common Features of State Workforce Development Systems

A prevailing characteristic of these comprehensive systems was that they had moved toward *a market and customer-driven* approach, away from traditional program-driven approaches. This involved the private sector in new ways, particularly in *strategic planning, coordination and oversight* — and in the design of *skills and certification systems*, as well as *labor market information systems*.

It was a new era also in the emphasis states were placing on *performance management systems* oriented to outcome measurement and the development of performance standards. In this sense, states were adopting federal models and tailoring them to their circumstances and needs. The stress on performance supported a greater interest in going beyond monitoring and reporting, and the review of results against strategic plans, to a commitment to evaluating the *efficiency and effectiveness* of programs within the workforce system, and of the system itself.

Few states had formal *evaluation plans*, but some had targeted funding for evaluation, had created advisory committees for that purpose, and had developed professional evaluation strategies. Some had required consistency across system goals, measurable objectives, certification system expectations, and performance measures, *linking these elements within an accountability system*.

Nearly all the states reviewed had been interested in pulling their data systems together more effectively to support expanded oversight interests and commitments. Some were integrating existing systems into a single unified data system with common definitions and measures of key program elements. Some were developing new data linkages across existing systems. Some were creating cross-walks between established MISs and data dictionaries. Some had expectations for local-level data integration which would link state and local systems.

In all cases, a first step had been to reach a consensus on a *common set of data elements* describing desired outcomes for the entire system, with some states extending this effort to program implementation variables, and to a description of services as well as client characteristics. A few states were attempting to develop a single automated service delivery "front-end" for intake, client assessment and case management. Most had been developing expanded and more integrated labor market information systems to support policy development and service delivery as well as monitoring and evaluation.

In most states, outcome measurement and performance standards development focused on a common set of outcome variables: completion of education or training; acquisition of certified skills; continuation of education or training; placement in employment (by occupation, industry and relationship to the training received); earnings in employment, job retention and cost per positive outcome.

Some states had given attention to the economic development side of workforce development: job creation, incentives for employers to retrain and retain workers, incentives for employers to remain in the state, and entrepreneurial projects emphasizing the development of high performance workplaces.

Some Unique State Approaches

Despite important common elements across state-wide workforce systems, each state had customized its approach — to its own environment, needs, interests and resources. *Michigan*, for example, had classified outcomes according to whether they served customers or administrators. The state proposed common forms and procedures, the development of common management standards, and the creation of integrated local MISs.

New York's annual strategic plans required an evaluation component. *Oregon* was interested in technical assistance and training for personnel carrying out accountability tasks, and in common standards for the design of information systems. The state established a formal Performance Measurement Initiative to promote the production of information on efficiency and effectiveness, replete with a single "performance index" for each program. *Florida* attached the development of "industrial incubator partnerships" to its workforce system, promoting innovation within the system and creating a new area for evaluation.

Texas applied sunset rules to programs within the workforce system, requiring systematic evaluation. Providers had to document the market demand for services, and there were incentives for "best practices" based on evaluations. The state targeted money specifically for performance management and evaluation, and the training of professional personnel needed for those functions. It also created a formal Evaluation and Performance Committee.

North Carolina planned to seek private sector funding for evaluation activities. *Iowa* was pursuing an interesting, useful chronology of steps in integrating the workforce system's information system, by beginning with structured interviews and focus groups with providers and stakeholders which contributed insights to the IBM design consultants. The design was then implemented in several phases that built on the state's existing MIS investments and allowed key operational and program issues to be resolved as technical computer environments were created.

The *Great Lakes Guarantee*, which sought to weld together into one coherent system the accountability efforts of several states within a regional labor market, existed at the high end of the accountability continuum in proposing the most integrated and comprehensive approach to information production for policy development and strategic planning.

The combination of common elements and state-specific strategies sketched above reveals the growing emphasis on accepting more uniform principles within and across states for guiding the integration, consolidation and/or coordination of more inclusive workforce development systems, while at the same time preserving discretion and flexibility in the way these principles were applied.

The Implications of State-Level System Development

The renewed interest in 1995 in block grant approaches, and a further devolution of federal monies to states and local areas, will require — if implemented — very serious and careful strategic planning and coordination by state governments, and stronger public-private partnerships at that level. The experience of those states that have moved rapidly on federal coordination initiatives, such as state-wide workforce system development, should be in a far safer position than before to cope with expanded decentralization and the responsibilities that accompany it.

Contemporary Coordination Efforts: The Core Data Elements Project

In the late 1970s and in the 1980s, a number of states had seen the need for greater organizational and service delivery integration across the many agencies and programs assisting individuals in acquiring education, occupational skills and sustaining employment. The federal government's anxiety about coordination seemed renewed as well. This was not unexpected. The public, and therefore the Congress, was concerned about the growing proliferation and fragmentation of education, training and employment programs with its attendant costs, and about the preoccupation with program inputs to the neglect of outcomes.

In response to these concerns a "second wave" of interest in *human services integration* occurred in the 1990s. Much of the force behind the second wave was a desire to reduce government expenses. Influential also was the perceived need to reduce service consumer's confusion and frustration, make services more readily accessible, and assure greater service quality.

The *first wave* had arrived toward the end of the 1970s under the Carter Administration, but nothing much had come of this churning of the waters. The service integration movement was given new life a decade later due to the extensive economic restructuring occurring in the latter half of the 1980s and the early part of the 1990s. New problems were emerging in an economy now imbedded in fiercer international competition.

Of particular concern was the degree of displacement of skilled blue collar workers, white collar middle managers, and other categories of workers in occupational sectors affected by trade imbalances; the movement of firms to areas of cheaper investment and labor; the downsizing of the military; the reconfiguring of corporations through mergers, buyouts and other kinds of consolidation; and the conscious shrinkage of business and industrial workforces in an effort to preserve and enhance profitability.

At the same time, continuing technological change was contributing to an ever-widening gap between educated, skilled and high-wage workers and the undereducated, underskilled and low-wage. Both greater program coordination and more precise accountability were becoming accepted ways of dealing with these new postindustrial challenges.

Background of Recent National Efforts

Consistent with the times, there were renewed efforts at the national level to reduce duplication, become more efficient organizationally, and reform service delivery systems in the user-friendly direction. Giving the integration movement legitimacy was a new president who was actively encouraging greater coordination not only from the bully pulpit but through new Administration-designed legislation. The purpose was to make coordination happen.

Relatively early in its tenure, the Clinton Administration completed three interconnected proposals regarding human resource development and coordination: the Reemployment Act, which proposed pulling programs for the unemployed and dislocated together; the Welfare Reform Act, which included a greatly expanded and better coordinated work/welfare system; and the School-To-Work Opportunities Act that sought to knit schools, training institutions, apprenticeships and workplaces together. In addition there was Americorps. And beyond these reforms there were new defense conversion and diversification programs that addressed the dislocation issue with military personnel and with civilians and communities affected by military cutbacks. These initiatives were laced with coordination mandates.

These changes and related proposals involved unprecedented collaboration and coordination at the highest levels of government — across the Departments of Education, Labor, Health and Human Services, Agriculture, Commerce, and Defense, in particular. The federal government was essentially providing a viable *coordination model* in the way it was *developing* service integration alternatives.

Service providers, now well socialized to thinking territorially, and essentially rewarded for doing so by funding policies, did not always embrace these reforms. In the evaluation research community, however, many social scientists were ecstatic. The public, the Congress, and the Administration seemed to be speaking with a single voice about workforce system evaluation, demanding that objective, science-based judgments of new initiatives — that is, of both their implementation and impact — be synonymous with "establishing accountability."

The Common Data Elements Project

Faithful to the JTPA Amendments, the Departments of Education, Labor, Health and Human Services, and Agriculture jointly sponsored a two-phase project beginning in 1993 to develop a *core set of variables, operational definitions and quantitative measures* that cut across *multiple employment and training programs.* The ultimate goal was to integrate information production by standardizing the "information glossary" for the entire workforce preparation system. A *Workgroup on Common Core Data Elements* was established, involving an impressive number of relevant organizations and constituencies.

The *first phase* of the project has focused on the identification of a common set of data elements (measures) for use across programs in workforce systems, and their common definition. In the summer of 1994, a draft report titled *Core Data Elements and Common Definitions for Employment and Training Programs* was released for comment and further revision. The discussion in this article is based on this initial draft report, which may undergo change as a result of the final approval process.

The second phase will concentrate on the development of a common set of measures and definitions describing *client statuses* in workforce preparation systems: the status of clients entering, progressing through, and leaving the system. The workgroup is expected also to develop a common set of measures and definitions for determining *eligibility* across workforce systems.

The Historical Rationale

Often viewed by policymakers and program managers as a 'technical task' for computer specialists and therefore somewhat removed from policy and management, *information production* concerning programs within the workforce development system (and concerning the system itself) actually *reflects critical policy decisions about what program features are most important.* These priorities subsequently affect the way programs are managed. Although information systems are meant to be a *support* for policies, in practice they often *direct and redirect* policies. Consequently decisions about what kind of information should and can be gathered for various purposes subtly channel program effort.

Therefore this unprecedented effort to increase the coordination and integration of workforce systems through access to common information about the programs within them is quite significant. And such access greatly enhances the ability of administrators to monitor and evaluate such systems for policy purposes.

Each program has come off the Congressional presses with its own linguistic patterns, tailored to its legislative era, the assumptions of its sponsors, and the nature of its program design. Different linguistic patterns tend to produce different program cultures and environments. Programs can become hostage to that inevitability. Preserving programs' uniqueness, and protecting their rationales and intents from being eroded, these linguistic barriers also fight against coordination and integration. Collaborative policy setting, planning, program operation and accountability activities suffer from a lack of willing, able translators and negotiators. Unfortunately this ends in inefficiencies, and often in ineffective service provision and outcomes for workers and employers.

In this context, the 1992 JTPA amendments *required* that "a core set of consistently defined data elements" be identified which could be used for information-gathering across major federal employment and training programs.The Departments of Education, Labor and Health and Human Services followed these amendments with the Core Data Elements Project. They were joined later by the National Occupational Information Coordinating Council, the U.S. General Accounting Office, the Census Bureau, and the National Governors' Association.

The Product

The Project's workgroup recommended operational definitions and measures, or indicators (data elements), for key *process* and *outcome* variables across Adult Education, Vocational Education, the Employment Service, JTPA Titles II and III, the Job Corps, JOBS, and Food Stamps. This accomplishment was expressed in the form of a sizable *compendium,* which was reviewed by experts and practitioners at the federal, state and local levels. The review was undeniably positive. In fact it was the reviewers' conclusion that the project's sponsors should expand the compendium to include variables relating to client status and eligibility.

In the compendium, common definitions were provided for key terms used in the array of employment and training linguistic systems. These were to support the use of the core data elements. The latter were classified within five groups:

- Demographic elements.
- Services received.
- Service completion.
- Program outcomes.
- Employment descriptors.

The core elements are listed in Figure 1, excerpted directly from the

Figure 1 • Core Data Elements*

Demographic Elements
Social Security Number
Date of Birth
Gender
Race/Ethnicity
Disabled/Individual
Education/Highest Formal Grade Level at Entry
Highest Degree/Credential at Entry
Labor Force Status at Entry
Scheduled Hours of Work Per Week at Entry (if employed)
Homeless Individual
Veteran
Public Assistance (federal, state, or local)
Long-term AFDC Recipient

Services Received
Assessment/Testing
Counseling/Career Development
Job Search Assistance
Occupational Skills Training (non-OJT)
On-the-Job Training (OJT)
Work Experience
Pre-Employment Skills/Job Readiness Training
Basic Skills Education through 8th Grade
Basic Skills Education at Secondary Level (9 through 12)
English as a Second Language
Postsecondary Academic Education (non-occupational)
Supportive Services

Service Completion
Completion of Occupational Skills Training (non-OJT)
Completion of On-the-Job Training (OJT)
Completion of Work Experience
Completion of Pre-Employment Skills/Job Readiness Training
Completion of Basic Skills Education through 8th Grade
Completion of Basic Skills Education at Secondary Level (9 through 12)
Completion of English as Second Language
Completion of Postsecondary Academic (non-occupational) Education
Reasons for Not Completing Planned Service(s)

Program Outcomes
Advanced to Higher Level of Education or Training
Attained Additional Degree/Credential
Assessed Learning Gain in English as a Second Language
Assessed Learning Gain in Basic Skills
Entered Unsubsidized Employment
Entered Subsidized Employment

Employment Descriptors
Scheduled Hours of Work per Week
Earnings (Hourly or Annual)
Occupation

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*Common definitions have been developed for the italicized terms.

workgroup's draft report. Definitions of the data elements are listed in the draft report's Appendix. Detailed there also are current differences between programs regarding 1) whether data are collected on individuals, cases or aggregate characteristics, and 2) the number and type of data elements collected. The report clarifies that programs may adopt the common definitions but choose to make selections from among the core elements, in moving toward more comprehensive information systems.

The Project's sponsors requested that if programs represented in this major effort collect information on a *subject* included within the core set, they should do so in a way that is consistent with the *corresponding element and its common definition.* Project participants are encouraged to add more detailed information to their information systems consistent with the common definitions. In this way, sponsors hope this convergence toward a common understanding of terms and indicators will yield *a common set of forms and integrated data systems.*

The Benefits of Information Consistency

Part of the prelude to this innovative project was a 1991 NGA survey of state and local policymakers and program administrators from 13 federally-funded education, training and employment programs. The survey report, *Streamlining and Integrating Human Resource Development Services for Adults,* supported the need for a standardized information system *glossary.* It also clarified that the benefits of coordination were greater than its risks — greater flexibility in using funds, increased knowledge and communication, more efficiency in service provision, greater ability to use specialized expertise, better monitoring, and enhanced performance.

The report on the Core Data Elements project also comments on the benefits of a more logical information collection approach, listing the following major advantages:

- Removal of identified barriers to the coordination and integration of services across employment and training programs at the state and local levels.
- Enhanced program planning and oversight capability at the federal, state and local levels.
- Removal of barriers to efficient customer service.

Prologue

The work of the *Job Training 2000 Performance Standards Subgroup* in 1991 revealed considerable ambiguity in the goals of programs and the lack of outcome measures in a number of them. Not surprisingly, the Subgroup recommended the establishment of a core set of performance outcomes. By 1993, the *Government Performance and Results Act* was requiring agencies to establish program goals, and performance measures consistent with them. At the same time, the *NGA Performance Management Project* was pinning down some basic principles for establishing accountability in coordinated state workforce development systems, emphasizing a logical progression from system goals to system performance measures. A core cluster of standardized definitions and measures was viewed as an essential dimension of state E&T "accountability systems."

Meanwhile, information system innovations at both the federal and state levels were beginning to capture information on participants' characteristics, services and outcomes *across program territories*, increasing the ability to track clients in coordinated systems. This was a significant achievement at a time when 39 states had developed one-stop centers.

So with this kind of evolution in thinking about the important role of information systems, the Core Data Elements Project is looking at the compendium, and the additions made to it in the next phase of the project, as more of a launching pad than a landing place.They have recommended these subsequent steps:

- The incorporation of the compendium of core data elements by additional federal agencies, when reporting requirements and new management information systems are developed, and by state councils and agencies involved in comprehensive workforce development systems.
- The expansion of the core set into a comprehensive dictionary of common definitions across education, training and employment efforts, maintained and updated by OMB.
- The use of such a dictionary in developing new legislation.

It is to their great credit that the project's sponsors hope to take their mandate further, to the ultimate end of this exercise, namely policy consistency. The focus on information systems is to lead in this critical direction.

Comprehensive State Workforce Development Systems: Key Elements

As a first step in a 1993 National Governors' Association project considering the goals and strategies involved in useful performance management systems, NGA commissioned a monograph on these issues from the Center for Governmental Studies at Northern Illinois University. Authored by John Baj and Robert Sheets in 1994, *Building State Workforce Development Systems Based on Policy Coordination and Quality Assurance* did more than provide a framework for NGA's *Performance Management Project.* Its perspective on the statewide coordination of policy and service provision, and on the evaluation of state workforce systems, links evaluation research principles and methods with the principles of management and program operation, giving attention to a range of accountability issues rarely discussed simultaneously or merged in a single approach.

Inputs versus Outputs: The Authors' Position

The authors begin with the conclusion that we have lived for several decades with an imbalanced focus on *inputs* (service "treatments") to the exclusion of adequate *output* (outcome) measures. We have essentially emphasized the quality of services and service systems, failing to hold programs accountable for their results. But professionals are beginning to question whether the pendulum has swung too far to the output side. The belief that *performance standards* can lead sometimes to selecting those most apt to succeed and can inappropriately redirect a program's intent, and that not meeting standards may torpedo programs important to preserve and refine, has led to new cautions.

So Baj and Sheets take a middle position on the swing of the pendulum. They say that an exclusive emphasis either on inputs or outputs denies us adequate information for improving programs and suggesting major reforms. In that vein, they recommend the following:

- Simultaneous study of a program's or a system's 1) organizational and service delivery *policies and processes, and* 2) its outcomes and longer-term impact, or *performance.*
- Promotion of *continuous improvement* in the organization and operation of programs or systems through the use of a combination of 1) *process* standards and 2) outcome standards (*performance* standards).
- Use of a *capacity-building (quality assurance)* system for adopting "best practices," based on the results of process and outcome studies, and for the purpose of continuous improvement.

The authors summarize their position in stating that "the major challenge in building cohesive workforce development systems for labor market entrants, unemployed workers and economically disadvantaged individuals is to improve the quality of programs and service delivery throughout the system while achieving greater accountability." Therefore the purpose of their report for NGA is to suggest a *conceptual model* that is responsive to that kind of mandate.

The authors sketch the model in this way. The outer boundary is a "broad policy coordination framework" defined in terms of a logical, internally consistent progression of priorities: the system's *mission;* its *goals* and *objectives;* its *implementation strategies;* its *desired outcomes;* its *target groups, client eligibility criteria* and *types and intensities of services;* and its *allowable costs. Quality assurance* is seen as a mechanism for maintaining and enhancing the structures and functioning of this coordinated system. *Quality assurance systems* are viewed as having a *performance management component* which guides the workforce development system in the direction of its goals and objectives, and supports *continu-*

ous improvement in system processes and outcomes.

The performance management component is expected to accomplish the following:

- Incorporate the principles of continuous improvement.
- Judge the entire system's performance, as well as the performance of programs within it.
- Make these judgments using multiple measures of outcomes, including educational achievement, occupational competencies, customer satisfaction, educational and employment continuation, employment retention and earnings, and industry-based skill standards.
- Use a common set of outcome variables, definitions, measures and performance standards in arriving at these judgments.
- Offer incentives and apply sanctions associated with performance standards, including capacity-building assistance.

Although the various concepts in this 1990s "system"-oriented vocabulary — *quality assurance systems enclosing performance management systems, and performance management systems encompassing continuous improvement* — are not always as clearly defined or as well differentiated from one another as one might wish, the monograph is enormously significant and useful. Let's look further into it.

Quality Assurance

The establishment of quality assurance systems, as an element of administrative coordination, should respond, the authors say, *to customer-defined outcome standards.* They claim that quality assurance systems require "the major restructuring and integration of all performance standards, skill standards, and related program accreditation and certification standards used by federal and state workforce development programs," and should encourage better communication between the public and private sectors. We should investigate this perspective on performance standards.

As mentioned earlier, the authors distinguish between *process,* or *design standards,* and *performance,* or *outcome,* standards:

- *Process standards:* address specific characteristics of the service delivery process, such as internal organizational policies and procedures, assessment and instructional approaches, staff qualifications, and monitoring and evaluation strategies.
- *Performance standards:* address the results of service interventions, or "treatments," on those receiving them, including desired changes in their academic and occupational competencies vis-a-vis national and state skill standards.

Monitoring and *evaluation* are essential functions in arriving at objective judgments of the movement toward compliance with these standards. And movement toward the standards is viewed as supporting a commitment to continuous quality improvement. The authors seem to be saying that the dual emphasis on judging the quality of both the design aspects of the workforce system and its performance is a new development. However, a more equal emphasis on process and outcomes came into vogue in the late 1980s, even though it could only be applied to individual programs in the absence of comprehensive coordinated workforce systems. What *is* new is this dualism in passing judgment on the new *networks of programs.*

The authors do not neglect, in their model, *subsystem* quality assurance. They propose three major quality assurance functions at the level of programs *within* workforce systems:

- *Trainee credentialing and recognition*: educational credentialing, state occupational licensing and certification, and private professional certification and recognition systems.
- *Supplier certification and recognition:* training and technical assistance related to the certification of suppliers (service providers).
- *Program and subsystem performance management:* monitoring and reporting performance based on desired outcomes and standards, and diagnosing performance problems.

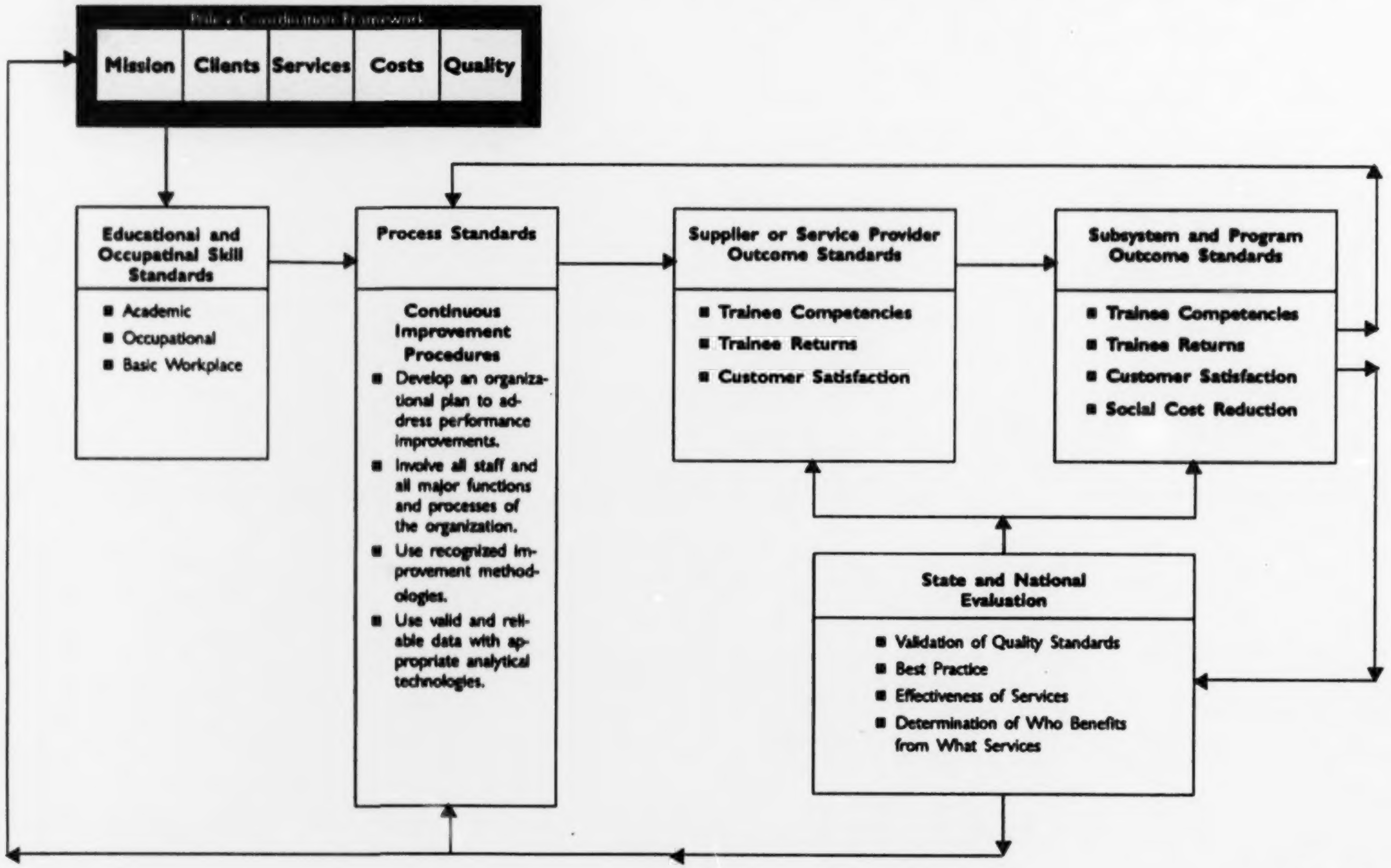
Baj and Sheets insist that the development of common sets of standards is essential to performance management and therefore to quality assurance at any level of the workforce system: that is, educational and occupational skill standards and credentialing systems; performance standards; and supplier process and outcome standards and certification requirements.

The authors are unequivocal about the role of *evaluation.* The improvement of system performance, and the performance of programs within the system, "require a strong linkage between performance management and evaluation." This linkage supports and reinforces continuous improvement. Evaluation, they suggest, plays several roles:

- To validate quality standards.
- To diagnose performance problems.
- To establish continuous improvement as a supplier process standard.

Figure 1, excerpted directly from the report, gives us an overview of this part of the authors' model. The authors define the traditional role of evaluation research as focusing on *basic provision decisions* (who should receive what type of services and at what cost), and assessing the returns on high-cost services (such as case management) to targeted populations. Evaluation researchers will likely quarrel with this view. As part of a management system, the authors feel evaluation should provide decisionmakers with information on the

Figure 1 • Continuous Improvement Procedures and their Links to Evaluation and Research


Policy Coordination Framework
Mission
Clients
Services
Costs
Quality
Educational and Occupatinal Skill Standards
Academic
Occupational
Basic Workplace
Process Standards
Continuous Improvement Procedures
Develop an organizational plan to address performance improvements.
Involve all staff and all major functions and processes of the organization.
Use recognized improvement methodologies.
Use valid and reliable data with appropriate analytical technologies.
Supplier or Service Provider Outcome Standards
Trainee Competencies
Trainee Returns
Customer Satisfaction
Subsystem and Program Outcome Standards
Trainee Competencies
Trainee Returns
Customer Satisfaction
Social Cost Reduction
State and National Evaluation
Validation of Quality Standards
Best Practice
Effectiveness of Services
Determination of Who Benefits from What Services

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"validity and cost-effectiveness of all major provision decisions." Their extension of the role of evaluation research to *validating* process and outcome *standards* stretches that role considerably, perhaps unrealistically and inappropriately.

Evaluation research has been of greatest use in providing the least biased information about the *nature* of service provision and its *results* for clients. In the process, it can contribute information about the level of compliance with performance standards. But the validation of quality standards has not been within its purview.

The authors claim that evaluations of national programs and demonstration projects have not been designed to improve the ongoing delivery or production of workforce development services. This is open to debate. It is true, however, that evaluations have not focused on different kinds of service providers *at the point of service delivery,* which the authors feel must be a requirement of performance management systems *within* quality assurance systems *within* workforce development systems, if continuous improvement requirements are to be met.

Some evaluation researchers have concluded that some of the program outcomes typically measured are not necessarily good indicators of longer-term impacts. But the authors take this conclusion a step further by interpreting it to mean that some measures are not *valid* indicators of program impact. Indicator validity usually refers to the extent to which a particular measure or group of measures accurately represent the outcome variable being measured. Determining indicator validity is a scientific process. One cannot simply leap from position A — i.e., the conclusion that measures such as job placement and off-welfare do not necessarily predict well to net earnings and welfare savings — to position B — i.e., the first two measures are not *valid* indicators of the latter two.

The authors suggest that outcome measures be *weighted and adjusted* so as to become *effective* indicators of net impacts, based on the differing characteristics of client groups (unskilled vs. skilled, for example). But *effective* and *valid* are two different things. Furthermore, weighting and adjusting are more appropriate in judging compliance with performance standards than in interpreting program outcomes, it being possible to disaggregate results for different client groups in interpreting data analyses.

Confusing also is the authors' final conclusion about the differences between *evaluation* and *management.* Having advocated for evaluation as an integral part of performance management systems, they later differentiate between evaluation and performance management by pointing to the infrequency of impact evaluation and the need for performance management systems that supply more immediate feedback to administrators, program operators and service providers. Therefore they comment that "quality assurance systems are largely concerned with outcome and process questions that emerge from accountability rather than impact issues." What does that mean?

Are they saying that evaluation research can contribute to performance management but is not suited to an ongoing oversight role? Performance management begins to look a great deal more like an expanded version of compliance monitoring, rather than as a source of objective, science-based information about the critical relationships between client characteristics, services, and outcomes.

The authors also say that continuous improvement should involve ongoing organizational *self-evaluation* through internal review teams, as well as through third-party process and impact evaluations. And the basis for continuous improvement should be a clear definition, they suggest, of what "improvement" is to mean, in the form of criteria and standards. This definition process is to be applied at all levels: the system as a whole, the programs within the system, and the service provider organizations involved.

Information Systems

Without adequate data, quality assurance systems can accomplish little. Therefore, the authors recommend that *automated management information systems* at all levels must be capable of supplying the kind of information needed to implement the various oversight strategies suggested in their report. The emphasis is on a *common set of quality indicators for process and outcomes.* A related interest is in the development of standardized instruments, meeting scientific standards, for conducting *customer satisfaction surveys.* The authors also recommend the development of cost-effective methods for gathering and analyzing information at the point of service delivery, to serve supplier certification purposes and to provide a basis for judging conformance with quality standards. This should be paired, they indicate, with efforts to train suppliers in the continuous improvement process and provide ongoing technical assistance to them.

Major Recommendations in the Report

There are three key recommendations: 1) the encouragement of state experimentation and demonstration in policy coordination and quality assurance; 2) the development of federal-state initiatives for establishing a quality assurance system within a national policy coordination framework; 3) the promotion of federal-state initiatives for developing a national policy coordination framework beyond quality assurance. *The positioning of the recommendations reflects the authors' belief that initiatives should begin in the states, and build toward a national framework.*

What do these recommendations involve?

- **Recommendation #1:** States are identified as the location for experimentation, but the federal government is expected to 1) encourage and assist states in experimenting, and in testing policy coordination frameworks that include school-to-

work, workforce entry, and worker retraining and transitioning, and 2) develop a national policy coordination framework for all publicly-funded workforce development programs.

- **Recommendation #2: Several national initiatives should contribute to state experimentation:**
    - Linking national skill standards to state quality assurance systems.
    - Restructuring public and private program accreditation and certification systems.
    - Establishing national/state capacity-building programs supporting quality assurance.
    - Linking evaluation to performance management within the quality assurance system.

With respect to the last initiative, the authors suggest that the results of impact evaluations should be used within the quality assurance system to examine policy decisions, their implementation, and the validity of quality standards. Again, it may be more accurate to talk about the *appropriateness* and *utility* of quality standards.

Comments on the Report

Despite some fuzziness in distinguishing among system-defining concepts, the overall model the authors propose is admirable. It includes all the major elements reflected in what we have learned from experience, expert opinion and research about policy development, administration, planning, program operation, service delivery and oversight, bringing these elements together within a *coordinated system.* In developing this model they ably resist the temptation to ignore the different levels of human resource activity — the equally important national, state, program-specific, and service delivery-specific levels. State workforce development councils and boards, and program administrators operating within comprehensive systems, will find this report stimulating and useful.

The National Governors' Association Performance Management Project

With funds from the Joyce Foundation, NGA worked with the Center for Governmental Studies at Northern Illinois University in 1993 to develop a *conceptual framework* for improving services and accountability across workforce programs, with a special interest in the development of comprehensive state workforce systems. This framework was described in NGA's publication, *Building State Workforce Development Systems: The Critical Roles of Policy Coordination and Quality Assurance.* This monograph was prepared in anticipation of a six-state project sponsored by NGA, and served as the major resource material for that project.

Phase One: The NGA Working Paper

The concept proposed in the monograph was a *performance management system* that incorporated *quality assurance* and *continuous program improvement* in a model that allowed policy-makers and planners to judge 1) a workforce system's implementation (how it was organized and made things happen, including its level of coordination); 2) its participants' outcomes; and 3) the system's impact and net effects judged against its most significant goals. The idea of "continuous improvement" was considered to involve ongoing self-evaluation, and a redesign of various elements of the workforce system in response to that evaluation. The notion of "quality assurance" involved the development and use of performance standards, educational and occupational skill standards, and standards for judging the operation of the system. The concept placed heavy emphasis on evaluation research and the innovation it was capable of encouraging.

Phase Two: The Six-State Accountability Effort

Following the production of the monograph, in the spring of 1994 NGA invited states with state-wide workforce boards or councils to apply for technical assistance to develop an *accountability model* for their workforce development systems — i.e. to apply for a second phase of the performance management project.

Technical assistance was to be made available for fifteen months, the first twelve of which were to be devoted to the development of a *state performance management model.* Funds for this assistance were to be provided by two private foundations — the Joyce Foundation and the John D. and Catherine T. MacArthur Foundation, and the U.S. Departments of Labor, Education, and Health and Human Services. This phase was to be coordinated with the National Institute for Literacy's performance management project.

The states selected on a competitive basis to receive assistance were expected to design *outcome-based accountability models* for 1) preparing youth for the school-to-work transition, 2) retraining and transitioning of other workers, and 3) helping disadvantaged adults and those with multiple barriers to enter and re-enter the workforce. The six states were to serve as laboratories for establishing accountability across workforce development programs. The concepts of *quality assurance* and *continuous program improvement* were to be dimensions of the models these states were to develop for application in their own state and for potential use elsewhere.

The RFP Process

NGA's project RFP made the assumption that many states were now in the process of restructuring their workforce development systems into what was described as "seamless, customer-driven delivery systems" in response to these well-recognized problems: diverse and often contradictory federal and state program goals, performance expectations, funding incentives, operational rules and regulations, and definitions of program terms. The RFP considered the participating states to be developing performance management models for much larger entities than those to which performance management principles had been applied in the past — this time to comprehensive state-wide workforce systems, not merely to individual programs or sets of related programs within such systems. The design of requests for waivers to federal and state statutes and implementing regulations were clearly to be part of participating states' responsibilities.

More specifically, states applying for the project were expected to produce the results listed in Figure 1. The ultimate goal, in developing performance management models, was to support the survival and enhancement of *a single integrated workforce system* — one in which key system functions such as policymaking, coordination, information production, monitoring and evaluation would be commonly defined and applied across an array of workforce programs. This kind of standardization was to result in a more organized, efficient and accountable organizational structure and service delivery system.

Figure 1 • Expectations for States Participating in the NGA Project

- Create a plan for the development of the *performance management model* that will outline the action steps to be taken, including the process to be pursued, the deliverables, the timelines, and the technical assistance needed.
- Involve the state's workforce board or council.
- Invest service providers in the project.
- Designate an *interagency policy team* and a *technical work group*, and identify a coordinator who will head the policy team and act as the liaison with NGA.
- Focus on three priority groups of workers — youth, adults needing retraining, and disadvantaged workers — with the option of giving greater emphasis to one or more of these.
- Establish a set of state goals for the state's workforce system, for each priority group.
- Identify quantifiable outcomes for the system, for each priority group, given these goals.
- Develop a common *glossary* of program terms for the system.
- Develop a common set of operational definitions and quantitative measures for the key factors to be studied in judging the accountability of the system.
- Develop specific monitoring and evaluation methods for holding state and local program managers accountable for achieving system goals.
- Incorporate *quality assurance* and *continuous program improvement* within the performance management model.
- Develop occupational standards for use across programs within the system.
- If desired, develop an incentive/sanction system for rewarding successful system operation and performance, or for providing technical assistance to resolve system problems.
- Define federal, state and local oversight roles and responsibilities vis-a-vis the system.
- Refine the model, working with national experts.
- Participate in interstate coordination efforts, and share information and problems with other states in the NGA project.
- Participate in three project meetings sponsored by NGA.
- Identify federal and state regulatory barriers to applying the model.
- Produce a state-approved report on the twelve-month design phase, which details the dimensions of the state's model and presents a plan for implementing it.
- Begin to implement the model developed.

Clearly the RFP was asking a great deal. But states were receiving something important in return — assistance from research experts at the national level who were not otherwise available to them, validation of their approaches to accountability from their peers, and a certain level of national notoriety for contributing to the dialogue on system coordination.

The Selection of Project Participants

NGA's selection criteria focused on the following issues:

- How the applicant would build on and enhance current state efforts to develop comprehensive workforce policies, integrate local planning and service delivery, and develop and use common monitoring, performance and evaluation standards across programs.
- What priority groups would be emphasized by the applicant.
- How appropriate and feasible the applicant's project organization plan appeared to be, and the strength of the state's commitment to attending the three national meetings.
- How clearly the applicant had articulated technical assistance needs.
- How substantial the results of the project were to be.

Applicants who planned to focus on all three groups of workers were given preference. In an effort to assure diversity in the models developed, other factors were considered, such as the complexity of the applicant's workforce system, the nature of the institutional environment of the system, the size of the state applying, and its geographical location.

Based on the above criteria, six states were to be selected. The current status of each of these states' efforts to develop a performance management strategy for its comprehensive workforce system was to be taken as *the baseline for judging its progress* over the life of the project. Each of the national meetings was to further refine each state's model through input and materials from the national consultants, structured peer reviews, and the sharing of information on common issues. States would be able to obtain technical assistance from the consultants and from NGA staff on-site, and through conference calls and correspondence. Representatives from any of the six states could share information and advice on-site with other states if this seemed useful.

The Technical Assistance Offered

These were the kinds of technical assistance states could access in the project:

1. The provision of reports and working papers from NGA's *Reinventing Government Task Force,* appropriate private sector representatives, and national experts.
2. The provision of information on successful state practices.
3. The outlining of a process for disseminating and utilizing research findings for local program planning.
4. The provision of information on a set of process and outcome criteria for continuous program improvement and self-assessment.
5. The provision of assistance with the development of waiver requests.
6. The provision of information on legislation, and reports on school-to-work performance measures, adult education quality indicators, common data definitions and measures, and the use of UI data.
7. The provision of a list of consultants specializing in performance management.

The Selection of Project States

Thirteen states applied to be part of the NGA project. The following six were selected: *Illinois, Iowa, New York, North Carolina, Texas* and *Washington.* These states were considered to have made significant progress in restructuring their range of workforce development programs and projects into high-quality, more customer-driven workforce preparation systems. In the NGA project they were expected to take a subsequent step: to develop "the next generation" of performance management systems, which would incorporate the concepts of quality assurance and continuous improvement, and would stress joint accountability across different programs and levels of government. Given the Clinton Administration's efforts to restructure and consolidate at the federal level, the states selected were to have an opportunity to work closely with relevant federal agencies.

Project Orientation

To prepare the six states to undertake a clearly-defined common mission, even though their accountability models would reflect the diversity of their circumstances and interests, NGA held the first of three national project meetings in Detroit in mid-June, 1994. A number of working papers were provided to give participants a framework for carrying out the mission. These included the substantial report, *Building State Workforce Development Systems,* and the first draft of the report prepared by the Workgroup on Common Core Data Elements, *Core Data Elements and Common Definitions.*

The materials also included the National Institute for Literacy's 1994 report, *A Guide to Strategic Planning for Performance Measurement, Reporting and Improvement Systems,* an issue paper prepared by NGA for the first project meeting, and an overview of Texas' process for developing core performance measures.

NGA also outlined general expectations regarding the characteristics of the accountability models the states were to develop:

- Measurable state-wide goals for : 1) youth transitioning from school to work, 2) workers needing retraining and transition assistance, and 3) adults with multiple barriers to employment.
- A common set of measurable desired outcomes for the customers of the workforce development system.
- State and local performance standards consistent with the desired goals and outcomes.
- A common information system (variables, definitions and measures) for reporting progress against the goals.
- Joint accountability across the system for achieving the goals and meeting performance standards.

NGA also provided participants with a *Glossary of Performance Management Terms* which was an extremely useful tool for sharing insights across the participating states.

General Ideas in NGA's Issue Paper

As a context, NGA staff reminded states in the paper that the quality of educational and other workforce development programs has been judged traditionally on the basis of accreditation criteria, program approval processes, and planning requirements oriented to compliance with rules and regulations concerning inputs. The pendulum had swung, they said, in the direction of judging outcomes — replete with incentive/sanction strategies, affording flexibility in the design and refining of programs, and relying on competition to promote high quality. However, they acknowledged that an emphasis on both inputs and outcomes was important, and that a commitment to continuous improvement must involve an interest in both.

The new wrinkle in this ongoing dialogue about accountability, they proposed, was the emergence of more comprehensive and coordinated service systems that cut across individual programs. This has generated interest and concern about how to appropriately judge system-wide processes and outcomes. Homogeneity of program terms and goals is merely an essential preface to developing system-wide visions, benchmarks, goals, objectives, outcome expectations, and performance standards.

The movement is toward what NGA terms *system-wide shared accountability.* This approach envisions a system with these dimensions:

- A set of measurable policy goals for the entire state.
- A set of measurable goals for the workforce development system consistent with state policy goals.
- A common set of measurable outcomes for all workforce development programs within the system, consistent with the goals for the system.

- A single incentive/sanction strategy that can be applied system-wide to support the achievement of system goals.
- A commitment to ongoing self-evaluation to determine the level of progress in achieving system goals.

This directs a very logical progression of thinking and planning. However, it is questionable whether state-wide policy goals can be stated such that they are measurable in the same sense as system and program outcomes can be measured. Benchmarks are by nature abstract and difficult to measure either qualitatively or quantitatively.

In discussing this progression, the writers of the issue paper distinguish between performance management tasks and continuous improvement tasks. They suggest that goal/outcome development is the former type of task, and evaluation research and capacity building the latter kind. However, evaluation researchers would likely consider evaluation research activities to be an integral part of a comprehensive performance management system which incorporates quality assurance, continuous improvement, and the identification of "best practices."

The issue paper poses some very important and useful questions:

1. What should be the roles and responsibilities of federal, state and local governments and the private sector in promoting and assuring shared accountability?
2. Does there need to be shared responsibility for planning and oversight at each level of the system, and what kind of governance arrangements should be put in place to assure shared accountability?
3. How can the contribution of each funding stream to the collective effort be determined and judged?
4. Is it enough to have information systems with common definitions and measures of outcomes, or are *integrated data systems* needed which offer customer information, case management information, monitoring information and evaluation results?
5. Is it useful to focus on the different populations served, or should there be a general accountability policy that applies to all customers?
6. How should program outcomes be linked to outcome expectations for the system as a whole, and what should the consequences be for meeting, exceeding or failing to meet system-wide performance expectations?

The Survey Undertaken by the *Texas Council on Workforce and Economic Competitiveness*

The Performance and Evaluation Committee of the Texas council conducted a survey of eleven national experts in the performance management field. The survey instrument consisted of a questionnaire with ten discussion questions. The experts were asked to respond in writing and subsequently through a telephone interview. Eight responded. Some of the major insights from the survey are summarized in the sections below.

Labor Market Outcomes

- *Multiple quantitative and qualitative measures of key factors* should be developed to compensate for deficiencies in any one indicator, although the system must remain manageable.
- Measures should not only include sheer outputs, such as placement rates, but indicators that provide *information on changes over time*, such as wage rates.
- Adjustments in performance standards, although to be kept to a minimum, should consider *local economic conditions and the characteristics of participant populations.*
- *Core measures* to be used across a workforce system should be a *first step* in performance management development, with performance standards phased in incrementally so as to take advantage of program information which can inform the choice of standards.
- Measures of *clients' access to the system* should be included, as they are important indicators of service provision equity and the level of response to key target populations.
- Key outcomes to track are: labor market outcomes, learning outcomes, and client/employer satisfaction outcomes.

Survey respondents expressed cautions as well as making recommendations. They viewed "entered employment rate" as a good measure if used with other measures such as "employment retention," the "appropriateness of the job," and "the degree of self-sufficiency." However, they pointed out that placement rates might not be appropriate for judging educational programs or further training. They did not think "training-related placement rates" were useful in all cases because of 1) the ambiguity of definitions of "training-related," 2) the uneven importance of this measure in educational and employment assistance vs. occupational skill training programs, and 3) its different meaning for longer-term specialized occupational training than for short-term training. Nevertheless, in some instances and with some training, they considered the training-related measure very important.

All agreed that "wage rate" measures were important. However, they felt it was difficult to sort out their meaning vis-a-vis other factors such as economic changes, or personal attitudes and situations. They also agreed that UI Wage Record information was the best source of information on "earnings," "employment affiliation," and the characteristics of firms where program participants were placed. They recognized that tracking information specific to particular occupations, developing indicators for the quality of jobs, and distinguishing between full-time and part-time employment in the wage records were a problem. They were ambivalent about client interviews as a way to enhance the information on wages, because of the general unreliability of self-report data, but thought this strategy was feasible if used in combination with UI data.

All the experts surveyed recommended the use of "job retention" measures used in combination with placement indices. This could best be done, they suggested, by using information from the UI files, by conducting customer service surveys, and collecting additional information on benefits and career ladders. But there were caveats. It is difficult to track employment over time as people move in and out of jobs. Also, the value of retaining a given job may not be high if it translates to a lack of mobility.

Learning Outcomes

- Possession of a GED, a post-secondary educational certificate, a license, or a degree are important indicators of learning outcomes.
- Multiple measures are needed, however, including "skill attainment", "job placement" and "job retention."

There was unanimity about measuring skill attainment, but respondents acknowledged the difficulty of devising measures in the absence of well-defined credentials and licenses for most occupations. They were hopeful that the *National Skills Standards Board* under *Education Goals 2000* would reduce these problems. Some experts suggested that the first step should be to define occupational and/or industry skills standards needed for a given occupation and/or industry, and then allow those standards to shape training curricula and programs.

Project States' Accountability Concepts

The states that applied for and were selected to participate in NGA's Performance Management Project proposed similar concepts and tasks consistent with NGA's framework. However, there was a range of responses to the RFP related to the unique situation of the six states and the history of their recent efforts to coordinate multiple educational, training and employment programs to create a new workforce 'system'. Figures 2 and 3 provide a brief overview of the content of their responses.

Some Observations About the RFP Responses

Of the six states participating in the NGA project, Washington State appears to have done the most thinking about the requirements of an accountability model that utilizes scientific principles and methods that are now well established evaluation research approaches. Although Washington is continuing to explore the issue of general benchmarks and measurable goals, objectives and outcomes, no other state proposed the kinds of scientific surveys, process evaluations, and net impact studies recommended by the Washington workforce board.

Mid-Project Progress

In November 1994 the states participating in the NGA project met to report on their progress. The informal reports they shared were guided by NGA's priorities for covering the key elements of performance management systems. In general, these elements were the following:

- The definition of "accountability."
- The mission of the workforce system.
- The system's purpose.
- Long-term benchmarks.
- Shorter-term policy goals.
- The system's building blocks.
- The key features of the system.
- Its participants and stakeholders.
- Its set of roles and responsibilities: federal, state and local.
- The target groups for service.
- The larger environment of the system.
- The outcomes expected of the system, given its goals.
- The measures to be collected, representing these outcomes.

The *Illinois* progress report followed this logical sequence of decisions closely. Twelve programs were included in the system. State policy goals encompassed early childhood development, educational performance standards, a school-to-work system, literacy and high school equivalency, professional and technical degree and certificate programs, worker retraining, and economic independence and long-term employment. Significant outcomes were the acquisition of academic, occupational and basic workplace skills; the realization of sustained employment and earnings; customer satisfaction; and reduced welfare dependency.

Iowa placed specific timeframes around these system elements utilizing these guiding principles: a focus on the customer, an emphasis on system outcomes, and a commitment to shared accountability, continuous improvement, greater collaboration in workforce development planning and execution, and flexibility.

New York's benchmark-development process consisted of three phases: 1) planning, 2) data collection and analysis, and 3) reporting, building on twenty key components derived from a study of the research and business literature, federal legislation, and other states' efforts. System goals gave special attention to simplicity, quality and accountability:

- Efficient and comprehensive planning and policy direction.
- Service integration.
- Targeting of education and training services to customers.
- Responsiveness to world-class educational and training standards.
- Resource allocation tied to the prioritization of activities and their demonstrated effectiveness.

North Carolina's report outlined the workforce system's benchmarks, strategic policy recommendations, policy

Figure 2 • Characteristics of Applications Submitted by States Selected for NGA Project

Illinois

Previous Accomplishments

- *Task Force on Human Resource Development* developed 7 goals:
  - To develop comprehensive early childhood development system.
  - To establish standards for educational performance.
  - To institute comprehensive school-to-work transition system.
  - To develop system giving assistance to out-of-school youth and disadvantaged adults failing to meet educational standards.
  - To develop system for awarding technical/professional certificates/degrees based on mastery of skills.
  - To urge employers to invest in retraining as major strategy for high performance work organizations.
  - To provide access to coordinated system of education, training, case management and supportive services for youth/adults facing employment barriers.
- Development of *coordination criteria* involving all relevant agencies.
- Requirement that single *Comprehensive Workforce Preparation Agreement* be developed for each service area involving vision and measurable goals and objectives.
- Development of multi-agency, statewide *School-to-Work Transition System.*
- Establishment of subcouncil to define broad occupational clusters and skill standards applicable across industries.
- Development of *educational guarantees* for statewide community college system.
- Development of *Inventory of Accountability Measures* containing 35 measures for judging students' outcomes.
- Development of operational framework for using performance measures/standards and evaluation strategies within a continous program improvement system for secondary and postsecondary vocational education programs.
- Development of employment/earnings measures for using UI data to judge program performance.
- Development of automated system for tracking pre/post information on employment, earnings, UI receipt and job retention for all participants in state's workforce preparation programs.
- Establishment of state/local partnership to achieve *State Goals for Learning.*
- Agreement on twelve outcomes and their measures, for use in improving workforce preparation activities.

Technical Assistance Requested

- Identification of models for supporting continuous program improvement.
- Identification of models for developing system-wide definitions, measures, and incentives/sanctions.
- Development of strategies for obtaining better data sources, coordinating automated data systems and networks, and sharing data.
- Identification of strategies for assessing program participants' skills across different assessment instruments.
- Development of performance measures for use at the local level consistent with state measures.

Iowa

Previous Accomplishments

- Creation of *Target Alliance* established by governor and representing six state agencies, to study the workforce preparation system & develop a theme and general ideas for achieving a more integrated system:
  - Theme: greater attention to "horizontal systemic connections" between programs and organizations to support local efforts to cross organizational territories in providing services.
  - Ideas:
    - ☐ Consideration of establishing an overall workforce development council representing all programs.
    - ☐ Stimulation of efforts to influence laws and regulations inhibiting collaboration and coordination.
    - ☐ Implementation of a collaborative process to develop a comprehensive *State Human Investment Policy* and appointment of a *Workforce Development Coordinator.*
- Development of funds for local workforce development centers.
- Development of outcome-based School-to-Work *Iowa Transition* model.
- Creation of *Council on Human Investment* to set long-term human investment goals and benchmarks, and to conduct customer satisfaction surveys.

Technical Assistance Requested

- Development of benchmarking process.
- Identification of "best practices" in developing quantitative measures consistent with benchmarks.
- Consideration of fund search strategies.
- Development of strategies and methods for studying processes and outcomes re: continuous program improvement.
- Identification of performance measures used at federal level and by other states.

Figure 2 • Continued

Figure 2 ▪ Continued

New York
Previous Accomplishments

- Governor's *Plan for Coordination of Workforce Development* and *NYS Strategy for Workforce Excellence* support a comprehensive customer-oriented service system, skilled workforce and high quality services. Concepts involved are:
  - Development of measurable outcomes for entire workforce system.
  - Redesign of education/training system.
  - Enhancement of job development/placement.
- *Workforce Preparation Evaluation Act* requires state agencies responsible for administering workforce preparation programs to prepare annual program plans, identify funding sources, and report actual program outcomes against stated program goals and objectives.
- Educational community's *New Compact for Learning* emphasizes preparation for meaningful work, sets learning standards, and recommends assessment methods for assuring continuous program improvement.
- *ACCESS* program provides comprehensive educational and training/retraining services via one site using a common *Client Assessment Framework*.
- *GATEWAY* initiative increases coordination of goals/objectives across workforce preparation programs and creates network of coordinated services in 24 sites, and provides information about 'best practices' in integrating customer services.
- *Career Pathways School-to-Work Opportunities Initiatives* test an integration of workforce preparation with academic education.
- *Education for Gainful Employment* leverages additional JOBS funds to expand the range of options for AFDC clients regarding educational and training alternatives.

Technical Assistance Requested

- Identification of sources of information for reducing barriers to the development and use of common outcome definitions and definitions of core competencies.
- Identification of 'best practices' in other states.
- Assistance with waiver requests.

North Carolina
Previous Accomplishments

- *Governor's Commission on Workforce Preparedness* is responsible for creating a coherent, comprehensive workforce development system with common vision and goals across all relevant programs. Is expected to develop a 4-year strategic plan and a 2-year plan which includes state workforce goals and objectives. The Commission has a number of task forces that are responsible for different dimensions of the workforce system:
  - *School-to-Work Task Force* is implementing statewide business/education initiative, *JobReady*, to create a school-to-work system, including development of outcome strategies such as certificates of mastery and competency measures — with assistance from the University of Maryland's Center for Learning and Competitiveness.
  - *Literacy Task Force* is developing strategic state plan for increasing adult literacy, with assistance from the Corporation for Enterprise Development.
  - *High Performance Task Force* has produced report on characteristics of high performance firms, assisted by a national consultant.
  - *Welfare Reform Task Force* is developing a customer and outcome-focused strategic plan for reforming the state welfare system.
- *Interagency Coordinating Council* provides technical advice to the Commission on policy, needs, information sharing and continuous program improvement. Has developed a model for a comprehensive workforce preparation system, *Virtual Workforce Preparedness Paradigm*.

Technical Assistance Requested

- Development of statewide goals and standards and program- level standards, and the design of system-wide information systems to track achievement.
- Development of quality criteria for self-assessment and other evaluative purposes.

Figure 2 ▪ Continued

Figure 2 ▪ Continued

North Carolina
Previous Accomplishments

- *Commission on Standards and Accountability* is setting new standards and skill measures for public school system.
- *Commission for a Competitive North Carolina* is developing four-year strategic plan for economic development, a performance-based budgeting strategy, and a plan for increasing the application of "total quality management" throughout state government.
- North Carolina has also developed a preliminary set of categories for outcome and performance standards, and actual measures and standards within this categories, across the entire system.

Technical Assistance Requested

Texas
Previous Accomplishments

- The *Texas Council on Workforce and Economic Competitiveness* (an HRIC and a separate state agency) was established to unify policy development, planning and evaluation of workforce development efforts. The Council is responsible for developing a strategic state plan which ties funding to performance and includes goals, objectives and performance measures for all workforce development programs.

  The Council has an *Evaluation and Performance Committee* and a number of workgroups under it. Purposes of the Council are to:
  - Develop industry-based skills standards/certification system.
  - Develop comprehensive labor market information system.
  - Design school-to-work transition process.
  - Create local workforce boards and service centers.
  - Develop statewide system for evaluating the effectiveness and efficiency of all workforce development programs.
- *Texas Tomorrow* is the current strategic plan for the workforce preparation system, developed by the Council. Goals and objectives include:
  - Consolidation of workforce development boards and creation of one-stop centers at local level.
  - Development of uniform state-wide client application and eligibility determination system for major workforce development programs.
  - Development of intake/assessment process that can distinguish between those for whom education and training are appropriate vs. those for whom basic labor market information, job search assistance and placement are appropriate.
  - Development of state/local strategic planning, evaluating and accountability system to enable the state to assess results achieved and "return on investment", and to improve the quality of programs and their delivery systems.
  - Improvement in individuals' literacy, basic education and basic workplace skills, including the proportion completing secondary and post-secondary programs.
  - Adoption of standard definitions and levels of achievement of workplace basic skills, and incorporation of these standards into education and training programs.
  - Preparation of youth for meaningful work and life-long learning.
- Current strategic plan has two parts: the first is on vision, philosophy, mission, system goals, and program goals and objectives under each goal, and has been completed; the second is on core performance measures which is in process.

Technical Assistance Requested

- Quality improvement process.
- Data system models.
- Integration of adult education.
- Waivers.

Figure 2 ▪ Continued

Figure 2 ▪ Continued

Texas
Previous Accomplishments

- **Related efforts:**
  - *Workforce Development Initiative for Youth* is the Texas school-to-work project and will include performance standards.
  - *The New Texas Prosperity* is a gubernatorial economic development effort.
  - *The Smart Jobs Plan* is a comprehensive governor-sponsored strategy to develop high-wage, high-skill jobs and produce a quality workforce through coordinating education and training.
  - *The Texas Assessment of Academic Skills* involves quantifiable educational objectives.
  - Texas community colleges now operate within performance standards.

Technical Assistance Requested

Washington
Previous Accomplishments

- *Investment in Human Capital* study identified employer/employee needs and organizational barriers in state's workforce development programs and evaluated the performance of these programs. It established a standard for how workforce systems, as well as programs, could be evaluated scientifically. Major recommendations from the study were:
  - Improve coordination.
  - Increase accountability.
  - Create a state coordinating board for workforce education and training.
- Creation of the *Washington State Education and Training Coordinating Board* (WETCB) by the Washington State Legislature, to be appointed by the governor. This board is responsible for designing an accountability system for workforce education, training and employment, as well as for policy development, planning and coordination re: a customer-driven system. Its vision and mission are:
  - Vision: "to develop a globally competitive workforce supported by an accessible, flexible, competency-based and technologically current education and training system".
  - Mission:
    - ☐ To establish new workforce partnership among labor, business, education and government.
    - ☐ To improve interprogram coordination.
    - ☐ To promote competency-based education and training with equal emphasis on acquisition of academic and occupational skills.
    - ☐ To leverage and generate additional resources for an integrated state-wide education and training system.
- Washington's role in the National Conference of State Legislature's *Jobs for the Future* project: one of five states involved, focusing on school-to-work transition, skills upgrading, and coordination of workforce system.
- Washington's new *Performance Partnership:* brings governor, legislature, state employees and private sector together to create a performance management system for all elements of state government. Will focus on the development of measurable outcomes and continuous program improvement.
- WETCB's state workforce development plan: establishes benchmarks and measurable goals and objectives for workforce preparation system.
  - The Board has developed preliminary *Targets for Excellence* for the workforce system. Utilizing the NGA project, it has continued its analysis of issues surrounding the development of measurable system goals and performance standards, and the coordination of information systems.

Technical Assistance Requested

- Information about 'best practices' in other states.
- Identification of competent consultants.
- Federal waivers.
- Federal developments relevant to workforce development systems.

Figure 2 ▪ Continued

Figure 2 ▪ Continued

Washington
Previous Accomplishments

- Accountability section within the new state workforce plan is consistent with Board's accountability mandate:
  - ☐ Assessment of state education and training needs.
  - ☐ Establishment of an inventory of programs.
  - ☐ Evaluation of the outcomes of the workforce system.
  - ☐ Development of minimum standards for data collection and program evaluation.
  - ☐ Development of reliable, valid and accessible data base for the system.

Accountability section recommends the following:

- A number of scientific surveys:
  - ☐ A state-wide household survey and data match with UI data every six years on a range of issues related to workforce preparation.
  - ☐ A survey of employers every six years.
  - ☐ Surveys (and focus groups) to determine customer satisfaction every two years.
  - ☐ Periodic conducting of a comprehensive process and impact study of programs within the workforce system: a process study of inter-program coordination, private sector participation and other issues of interest; a net impact and cost/benefit study of major new programs.
- Matching of participants' program outcomes at approximately nine months and at five years beyond program participation, with UI data to determine earnings and obtain other information.

Technical Assistance Requested

Figure 3 ▪ Other Characteristics of the States Selected for the NGA Project

Measurable Goals, Objectives, and Outcomes	**Monitoring and Evaluation**	**Organizational Arrangements**
Illinois		
▪ Will develop common set of measurable outcomes for each group, as well as standards for each, which apply across all programs.	▪ Will develop alternative models for achieving continuous program improvement, and make recommendations.	▪ *Governor's Task Force on Human Resource Development* is mandated to shape integrated, performance-driven human resource system, so will provide the leadership re: NGA project. Updates, focus groups, public hearings, articles in agency newsletters will be used to update all relevant agencies, employers, public.
Iowa		
▪ Will develop policy goals for workforce preparation system, and benchmarks for achieving them for each population group, with the assistance of a formal *Research Group* from three state universities. ▪ Will develop common performance measures and definitions for each population group, to be used at both the state level and at the level of local workforce centers.	▪ Will develop a common performance management system for all programs. ▪ Will develop a method for monitoring and judging performance across system, including customer satisfaction and service quality. ▪ Will develop measures to assist service providers in implementing continuous program improvement. ▪ Will develop self-assessment tools. ▪ Will develop an integrated automated information system to support interagency efforts. ▪ Will seek to identity 'best practices.'	▪ A state *Workforce Development Council* will be created, associated with the Human Investment Policy Council. Meanwhile an existing *interagency policy team* will be responsible for the project, assisted by a *Technical Work Group.* ▪ Service providers, customers, communities and others will be invested in the process through symposia and other forums and through a *Special Communications Group.*
New York		
▪ Will identify system-wide benchmarks for each population group using outcome-based measures and process (quality) standards, and relying on skills assessment/certification system to be developed by *National Skills Standards Board* under *Goals 2000.* ▪ Will develop MIS to collect, store, and analyze outcome data (also UI data). ▪ Will study barriers to implementing a comprehensive performance management system. ▪ Will develop strategic plan for workforce preparation system specifying goals, benchmarks, objectives, measurable outcomes, and information system, drawing on US DOL's *Core Data Elements and Common Definitions* . ▪ Will design pilot project to test viability of concepts in the state plan.	Will use *Evaluation Act* to support development of common set of outcomes and strategies for continuous program improvement. ▪ Will seek to pinpoint "best practices." ▪ Will develop a "feedback loop" to increase utilization of program/UI data for continuing program improvement. ▪ Will develop economic incentives and sanctions to support the use of analyses to improve outcomes.	▪ *NY State Job Training Coordinating Council* will coordinate existing state workforce agencies, councils and related organizations via a new project team.

Figure 3 ▪ Continued

Figure 3 ▪ Continued

Measurable Goals, Objectives, and Outcomes	Monitoring and Evaluation	Organizational Arrangements
North Carolina ▪ Will develop and define quantifiable state goals for each client group across entire workforce preparation system. ▪ Will identify both outcome-based measures, definitions and standards, and measures and definitions for assessing service delivery and service quality for diverse clients. ▪ Will develop common set of performance standards for all programs in workforce system. ▪ Will rely on *Secretary's Commission on Necessary Skills* and *Goals 2000* in defining basic skills and competencies. ▪ Will recommend changes in legislation and regulation re: waivers.	▪ Will focus on a number of elements of a quality assurance system, such as continuous program improvement, program accreditation, and capacity building. ▪ Will develop methods for tracking system progress in meeting state goals.	▪ *Governors' Commission on Workforce Preparedness* (NC's HIRC) will have ultimate responsibility, but an expanded *Interagency Coordinating Council* will oversee NGA project.
Texas ▪ Will refine performance measures for state plan goals and objectives. ▪ Will use the eight core performance measures developed in collaborative process by *Texas Council on Workforce and Economic Competitiveness* as general framework for NGA project. ▪ Will view development and implementation of performance management system as *six-year* project involving: ◆ Creation of inventory of current information systems and consideration of ways to connect them. ◆ Development of plan for coordinating information systems. ◆ Reduction of barriers to coordination/integration at all levels. ◆ Formation of workgroups to develop implementation strategies.	▪ Will link performance management system with system-wide continuous program improvement and quality assurance systems. ▪ Will develop evaluation process for continuous program improvement and quality service delivery.	▪ Texas Council's *Evaluation and Performance Committee* will oversee NGA project. ▪ Committee's *Performance Measurement Workgroup* will serve as interagency policy group.

Figure 3 ▪ Continued

Figure 3 ▪ Continued

Measurable Goals, Objectives, and Outcomes	**Monitoring and Evaluation**	**Organizational Arrangements**
Washington		
▪ Will establish benchmarks and measurable goals, objectives, outcomes, and performance standards. • Will further refine *Targets for Excellence*. • Will consider more thoroughly the pros and cons of using performance standards. ▪ Data system coordination/integration: efforts will be focused on a more coordinated and integrated workforce development information system, emphasizing: • Common set of data elements and definitions. • Common reporting requirements. • Participant confidentiality protections. • Reduction of data duplication. • Information portability. • Staff training needs. • State-of-the-art computer hardware and software needed.	▪ Will further develop and refine evaluation system for judging both the workforce system's and its programs' progress against goals and objectives based on scientific principles and methods. ▪ Accountability section of new state workforce development plan will serve as framework for further development and refinement of methods for ensuring accountability. Special consideration will be given to: • Using skills standards and competency-based assessments as part of system-wide and program-specific evaluations. • Using program evaluations to support continuous program improvement and quality assurance. • Developing reports for customers of the workforce system (workers, employers and other stakeholders) to increase informed choice among education, training, and employment options.	▪ WETCB is coordinating the NGA project. Its established *Interagency Committee* will play a major role, and a representative of governor's office will link project with state's new *Performance Partnership*. A technical workgroup on accountability will have operational responsibility.

goals, and more specific objectives. Accountability efforts were to focus on retooling the existing workforce, preparing the emerging workforce, and building the workforce infrastructure — and on performance-based budgeting in the areas of social and economic well-being, corrections, health and safety, economic development, the environment, justice, education, agriculture, cultural resources, and general government. Measurable objectives were being developed for each area of interest, as well as outcome measures consistent with policy goals. Of particular concern were the quality of jobs, employment retention, and poverty reduction. Additional attention was being given to strategies for strengthening political support and marketing the system.

The *Texas* report focused on desired system outcomes and quantitative measure for identifying them, based on five major system goals and a set of objectives under each. The goals emphasized 1) the development of a statewide system supporting local workforce development centers and providing a network of services and information to customers, 2) the creation of a state/local strategic planning and evaluation subsystem for judging the performance of the system, 3) the acquisition of literacy, basic education and basic workplace skills by customers, 4) the acquisition of occupational skills by customers that meet workplace requirements for long-term sustaining employment in high-skill, high-wage occupational areas, and 5) the preparation of youth through obtaining knowledge, skills and behaviors necessary for the transition to high-skill, high-wage carrers and through lifelong learning. Desired outcomes included labor market, learning, customer satisfaction, and system equity outcomes.

Washington explained the state's performance management framework in its report, as well as describing system policy goals and outcomes. This framework emphasized the interconnections among components of the workforce system: state-wide policy goals, measurable outcomes, the data system infrastructure, the outcomes of programs within the system, and the utilization of evaluation results for continuous quality improvement. The policy outcomes focused on employment, earnings, skill competencies, worker productivity, the reduction of poverty, customer satisfaction, and the system's general return on the public's investment. The Washington report advocated the use of multiple measures for each of the major desired outcomes, to increase the precision and validity of outcome evaluations.

Some Comments on the NGA Project

A number of issues are involved in the six states' efforts to develop an abstract system concept, and to describe its potential implementation. Among them are these:

- How do planners move logically and realistically from abstract missions, benchmarks and goals, to more specific objectives and measurable outcomes?
- Must all the outcomes be measurable quantitatively?
- How should "continuous improvement" and "quality assurance" be defined, in order for planners to realistically monitor and evaluate these attributes of systems?
- How much should be expected, pragmatically, of government/private sector partnerships in achieving the more idealistic visions of workforce systems promoted by the kind of system planning efforts encouraged in the NGA project?
- Should new workforce systems be permitted to function for a time before crystallizing the outcomes to be expected of them, and developing performance standards?

Although many such questions can emerge from these impressive planning activities in states, the NGA project is particularly important in the context of the renewed political interest in budget balancing, greater state-level discretion, and the consolidation of programs and service delivery. The movement to develop state-wide workforce systems under over-arching state boards or councils predated this shift, however. This movement was encouraged by the evolving positions of national employment and training organizations and governors, and by incentives from the U.S. Department of Labor as part of Secretary Reich's effort to move the employment and training system from a largely-fragmented unemployment system to a more collaborative and integrated reemployment system.

Motivated and funded quite differently by these disparate supporters of state-wide workforce initiatives, a common trend toward state authority and innovation in employment and training (with or without substantial federal oversight) has come to pass. The NGA project has demonstrated what states can accomplish on their own, with special assistance from national experts, not only in developing workforce systems but in evaluating them using competent social science principles and methods.

Editor's Note

The NGA references for this article are listed below. They were working papers provided to participants of the Performance Management Project in June and July of 1994.

Developing Comprehensive Performance Management for the Workforce System: Project Description.

Glossary of Project Terms.

Issues in Developing Comprehensive Performance Management for Workforce Development Systems.

Texas's Process for Setting Core Performance Measures.

Attachment C of the report prepared by the Texas Council on Workforce and Economic Competitiveness summarizing the results of a survey of national performance management specialists.

Editorial Commentary

States have long recognized that some workforce development policies and procedures have been conflicting or incompatible. This they knew was damaging service quality, precluding interagency collaboration, and reducing the ability of participants to move into and between programs. Simultaneously, states were appreciating the importance of encouraging the development of high-skill, high-wage workforces, which would demand a reorganization of the workforce system.

To pull education and skill training together better, many states introduced educational reforms in the 1990s to achieve a better linkage between academic knowledge and workforce skills, stimulated by the *National Education Goals* established by the President and the governors in 1989. Some states created new state boards or councils responsible for the full gamut of workforce programs and special projects. Some were moving toward coordinated, sometimes integrated, information systems that would support these new statewide systems and their evaluation.

The JTPA amendments spawned some of these human resource boards. Reflecting Congressional interest in coordination, these amendments promoted program and service delivery coordination under the aegis of broadly representative state-wide boards or councils whose responsibility was to set policy, develop short and longer-term plans, promote coordination, and establish accountability for all state workforce-related programs and services. These entities were becoming the major tool for seeking better integration while reducing costs and making programs more accountable for achieving broad, cross-cutting goals.

The emphasis was now on state workforce *systems,* rather than on an increasingly unwieldy collection of programs with diverse goals and regulations. These systems were to involve clear-cut benchmarks, goals, objectives and performance indicators. Locating these tasks at the state level supported the decentralization of authority and responsibility launched in the 1980s. Such decentralization was to permit the federal government to restructure itself, and later to "reinvent" itself, as a leaner, more coordinated, and more efficient body.

Decentralization has meant, however, that states have had few national models or guidelines to assist them in pursuing workforce integration. Apart from their own efforts to share information with other states and learn from their approaches, only minimal technical assistance has been available. Therefore, each state's strategy for workforce coordination has been somewhat idiosyncratic, beyond the necessity to respond to state-specific needs and interests. And accurate, detailed information on the nature and status of workforce coordination efforts across diverse states has been hard to come by. Only time-limited, selective "snapshots" were available, which artificially froze states' activities for a moment, activities that were an important part of an evolutionary process that was constantly changing.

In the midst of continuing experimentation with coordination strategies, there has been a strong steady movement to ensure the "accountability" of new more comprehensive and integrated workforce development systems. The methods for establishing such accountability have moved ever closer to *evaluation research* standards. The NGA project is an example of this commitment to making professional judgments of the results of system policies and activities, and the impact of system interventions for workers and employers. Obtaining such objective results is now an accepted input to comprehensive workforce policy development and planning.

Resources

Editorial Introduction

In the first part of this section of *Evaluation Forum* we sample references from the plethora of publications on economic change, restructuring and worker dislocation. The list of useful books, articles, reports and professional papers is loosely separated into three categories: publications focusing mainly on U.S.- specific issues; publications providing insights about other countries; and a special bibliography on workforce development coordination issues. We have indicated with a single asterisk (*) the publications in the first two categories which deal mainly with *general economic issues*, as a context for learning more about the context of worker dislocation, and indicated with a double asterisk (**) those that deal more directly with *worker dislocation and displacement*.

The second part of the Resources Section updates readers regarding some of the federal research conducted since the last issue of the journal. This is a limited overview, based on the responses of relevant federal agencies to the editor's request for information.

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Arkansas	Welfare Demonstration Project
California	Work Pays Demonstration Project
Colorado	Colorado Personal Responsibility and Employment Program
Connecticut	A Fair Chance
Florida	Family Transition Program
Hawaii	Creating Work Opportunities for JOBS Families
Indiana	Indiana Manpower Placement and Comprehensive Training Program
Michigan	To Strengthen Michigan Families
Mississippi	A New Direction Demonstration Program
New York	Jobs First Demonstration
North Dakota	Early Intervention Program
Oklahoma	Learnfare Program
Oregon	JOBS Plus Program
Pennsylvania	Pathways to Independence Project
South Carolina	Self-Sufficiency and Parental Responsibility Program
South Dakota	Strengthening of South Dakota Families Initiative
Wisconsin	AFDC Benefit Cap Demonstration Project

U.S. Department of Commerce

Selected Current Research Projects

A project to develop a skill-based labor market information system reflecting the occupational restructuring underway and changing job requirements.

A project to develop information on initiating and executing economic development strategies that provide economic and job creation benefits and meet sustainability objectives.

A project to stimulate technological innovation in small businesses.

A project to determine the feasibility of developing a plan to utilize private industry councils to attract high-growth high-wage industries to distressed areas.

National Commission for Employment Policy

Selected Recent Projects

An investigation of labor market trends between 1979 and 1994.

A study of racial inequality in employment and earnings among young men between 1979 and 1989.

An analysis of the Panel Survey of Income Dynamics on the labor market status of African-American workers.

A study of the employment effects of the Administration's programs re: Technology for a Sustainable Future.

An exploration of employment prospects for low-income youth and young adults, in relation to lessons from the 1980s.

A review of employment and training programs for youth and young adults.

National Commission list continues.

National Commission list continued

Selected Recent Projects

An analysis of JTPA Title II training programs for in-school and out-of-school youth, including the effect of local labor market characteristics on the JTPA post-program outcomes of out-of-school male youth.

A study of successful and promising school-based dropout prevention programs and strategies.

A series of work/welfare studies to explore the implications of time-limited welfare reform initiatives on employment and training systems; employers' roles in welfare reform; the role of JTPA; patterns of participation in programs; and other issues.

A series of studies on the relationship between UI and dislocated worker programs in terms of measuring performance in JTPA, JOBS, and Secondary Vocational Education.

An evaluation of the impact of Title III on earnings and employment prospects, using UI data.

A study of the impact of alternative eligibility requirements for training stipends in the Reemployment Act of 1994.

A study of the kinds of training workers undertake.

An historical review of comprehensive planning and programming in employment and training in the U.S.

A review and commentary on evaluation reports produced by the U.S. DOL on contemporary employment and training programs for an array of target groups.

An assessment of the ability of three delivery systems to meet workforce development needs: education, government job training and placement programs; and employer-sponsored education and training efforts.

A number of studies concerning earnings inequality: history, causes, strategies to address.

A study of the changing role of labor force statistics for economic policies in the 1990s.

U.S. Congress Office of Technology Assessment

Selected Recent Reports

Testing and Assessment in Vocational Education.

Technology, Jobs, and Productivity in a Service Economy.

Performance Standards for the Food Stamp Employment and Training Program.

American Industry and the Environment: Implications for Trade and U.S. Competitiveness.

Technology and Work-Based Learning.

Wage Record Information Systems.

Multinationals and the U.S. Technology Base.

In Memoriam

At the end of this issue of *Evaluation Forum* we honor the memory of Sar A. Levitan, who died in May 1994. Sar was a unique and remarkably influential contributor to the national dialogue on employment, training and antipoverty policy in the U.S. over his long career as an activist economist. Author of fifty books and hundreds of articles on employment issues, Sar was the recipient of the *Secretary of Labor's Lifetime Achievement Award*, presented to him by Secretary Robert B. Reich.

The text of this coveted award read: "In recognition of your numerous contributions to the Department of Labor over several decades, you have set the highest standards in your dedication to work, the American worker, and the fight against poverty. Your scholarship, wisdom, wit and kindness have inspired us all."

In accepting the award, Sar replied,

> My scribblings over the years have aimed to combine right and rationality to improve social welfare. This award, from those who share this goal, is gratifying recognition of these labors. I would gladly trade it for an indexed increase in the minimum wage to reduce hardship, a network of community learning centers to skill our youth, or a few thousand public service jobs to move people from welfare to work. But since these are not an offer, I am honored to accept this award. If right and rationality continue to be recognized, these critical education, employment and earnings policies may eventually come to pass, to realize this nation's promise of greatness.

A memorial service was held for Sar in June 1994 in the Education and Labor Committee Hearing Room of the U.S. House of Representatives. Those commenting about his life, career and achievements were Ray Marshall (former Secretary of Labor), Gordon Berlin (formerly with The Ford Foundation and now with MDRC), Marion Pines (The Johns Hopkins University), Jon Weintraub (House Committee on Education and Labor), Isaac Shapiro (Office of the Secretary, U.S. Department of Labor), Cliff Johnson (The Children's Defense Fund), Andrew Sum (Northeastern University), and Garth Mangum (University of Utah).

The following excerpts are from Ray Marshall's comments at the memorial service:

> He made extremely important contributions to policy understanding in a broad range of areas. He believed in evaluations, learning by experience and experimentation. I think one of the important lessons that he tried to teach everyone was never to assume that what you are doing will work automatically, because if everything you tried to do worked it probably was not worth doing. . . . He had a strong belief in democratic institutions, in the ability of informed opinion to get things done. . . . He believed that there was a role for competition in politics as in other things, and that the federal government could in fact do a great deal to improve the lives of people. And the reason he thought that is because it is true.

Sar actively supported the development of *Evaluation Forum* as an educational tool for informing professionals in the field about the results of major policy analyses and research projects in employment and training, and willingly offered many useful suggestions that improved its quality and utility and helped direct its further evolution.

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History of the Journal

Evaluation Forum was developed as part of a five-year national demonstration project, *The JTPA Evaluation Design Project*, funded between 1986 and 1991 by the National Commission for Employment Policy, the U.S. Department of Labor, the IBM Corporation and The Ford Foundation. The purpose of the project was to increase the interest, knowledge and sophistication of employment and training professionals at the state and local level regarding *program evaluation:* its scientific principles and methods, its practical applications in better understanding program implementation and impact, and its utility as a practical tool for adjusting policies and improving programs. The project's series of evaluation guides can be obtained through the ERIC system in public libraries, or in book form from the W. E. Upjohn Institute for Employment Research.

Evaluation Forum is a national journal growing out of the five-year project and developed specifically for state and local program practitioners in the employment and training field. Its major objective is to communicate information on policy issues and research activities at the national, state and local level which can inform judgments about the design and effectiveness of various employment and training policies and strategies. Eight theme-oriented issues of the journal were published as part of the demonstration project.

The New *Evaluation Forum*

The new *Evaluation Forum*, of which this is the third issue, is being sponsored and funded by the Office of Policy and Research, Employment and Training Administration, U.S. Department of Labor. Its purpose is to disseminate useful information on evaluation issues, activities and results to those responsible for administering, planning, managing and overseeing employment and training programs across the United States. Again, each issue of the journal will be theme-oriented, and will follow the same organizational format as in the past. However, each issue will feature reviews by the editor and guest reviewers rather than articles written by practitioners and researchers.

Reader Participation

The content of the new version of the journal will cover the same kinds of materials as in the past: commentaries, policy analyses; program reviews; reports on evaluation planning, reports on analyses of monitoring data; research reports on program evaluations or policy research; books and articles on policy issues, programs and research; and other materials related to evaluation that would be of interest to practitioners.

Please Note

Each issue addresses a general theme in its Features section, but also covers a range of subjects under the section Evaluation Issues and Activities. Therefore, ***readers are encouraged to send materials to the editor on a wide variety of issues for possible review in the journal.***

Please send materials and suggestions to:

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The editor would appreciate your providing the following information with your materials: ***name, address, phone, organizational affiliation, position in the organization, and major interests re: evaluation issues and/ or activities.***

The Features of the next issue of *Evaluation Forum* will focus on issues surrounding youth employment and training.

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